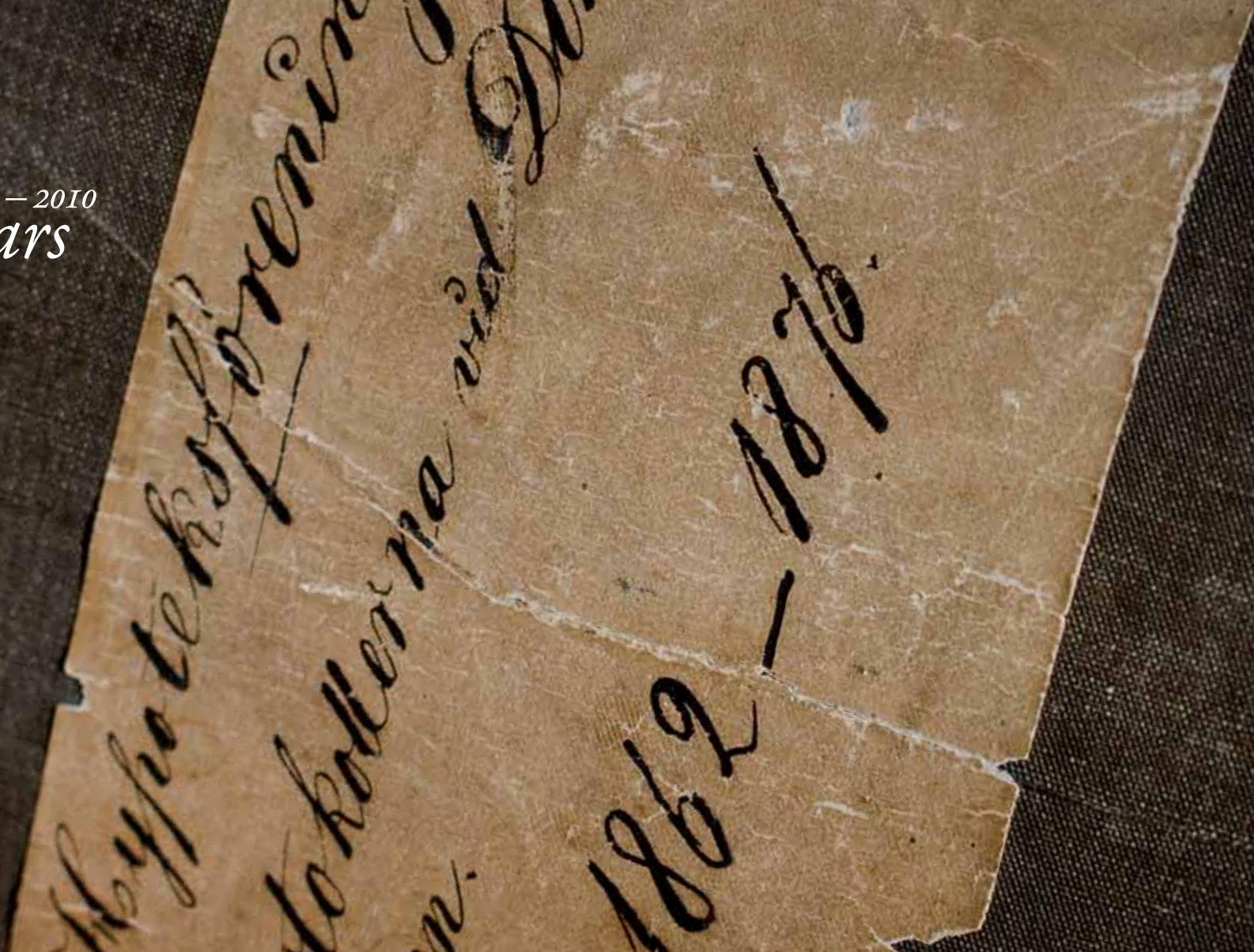




1860 – 2010

150 years



THE MORTGAGE SOCIETY
OF FINLAND

 HYPO

ANNUAL REPORT 2010

The Mortgage Society of Finland excels at home financing



The Mortgage Society of Finland is an innovative comprehensive expert in home financing and housing. Its operating model proved its strength in the challenging business environment of 2010, the 150th anniversary of the Mortgage Society. A market survey carried out in 2010 showed that Finns know the Mortgage Society as a home financing and housing specialist. The demand for the Mortgage Society's special products was high despite the challenging business environment. In addition, customer numbers improved compared to 2009, and the Mortgage Society of Finland Group's capital adequacy ratio remained at a very high level.

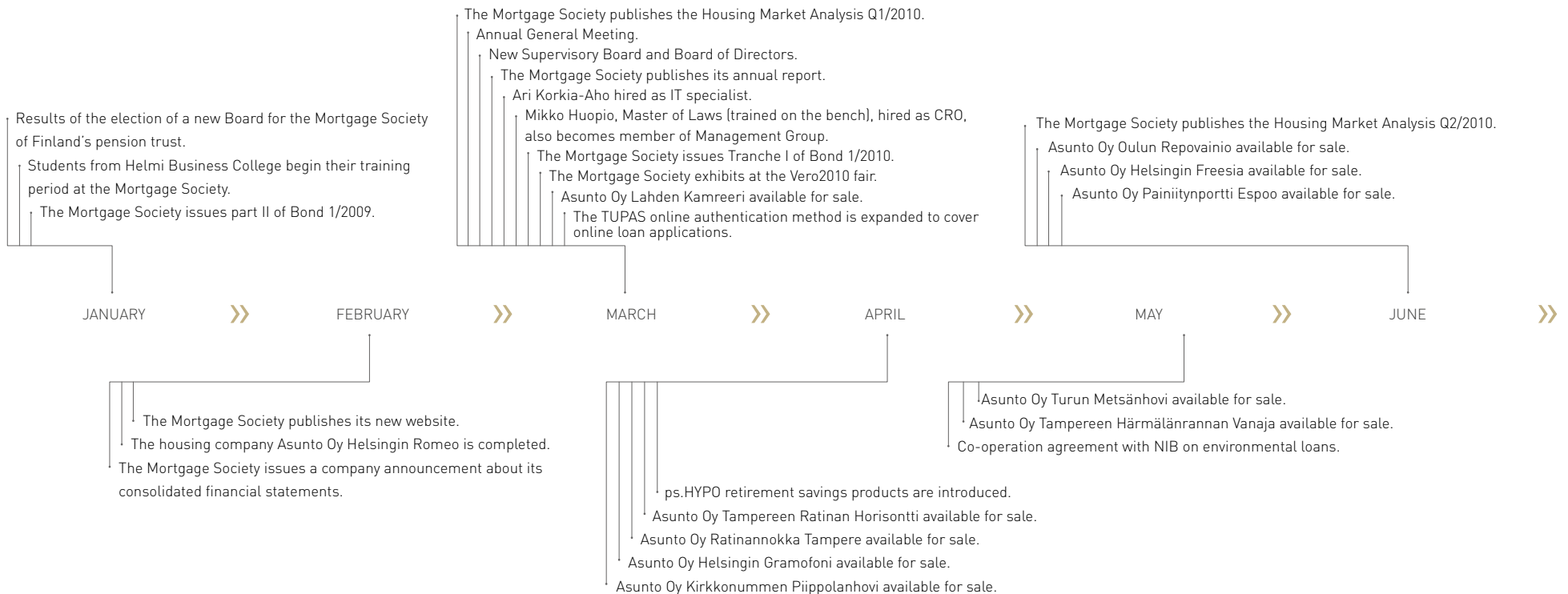
In 2010, the Mortgage Society's most significant product introduction was the retirement savings scheme launched by its deposit bank. In 2011, the Mortgage Society offers a diverse selection of home financing and deposit bank products that will be developed further based on customers' needs.

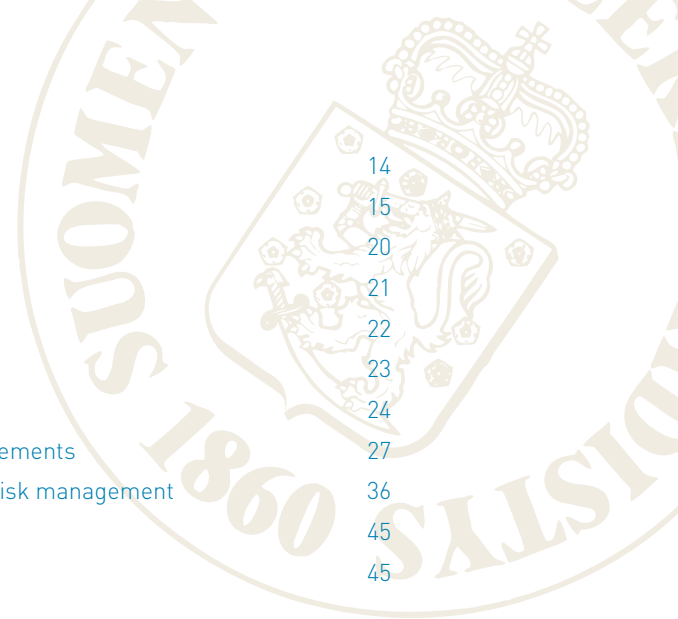
The Mortgage Society of Finland, which is the oldest national private credit institution in Finland, and the special deposit bank Suomen AsuntoHypoPankki represent the core of the Mortgage Society's operations. These two companies constitute the Mortgage Society of Finland Group. With a staff of 27 permanent specialists at its customer service centre in the heart of Helsinki, the Mortgage Society serves its member customers through encrypted Internet and telephone connections, through an online banking service and over the counter.

The Mortgage Society aims to constantly complement its traditional home financing and housing products with new, alternative and customer-orientated solutions. Our services are based on customers' individual needs, and we seek to provide them with Finland's finest mortgage loan expertise. We build our customer relationships over the long term, not by the quarter. We do not require our customers to concentrate all their banking with us: they can have their current accounts, mutual fund shares and insurance with another bank.

A high capital adequacy ratio is a fundamental cornerstone of the Mortgage Society's operations. We further develop our operations through profitable business to better serve our member customers. All our operations are guided by our customer promise: "A Safe Way for Better Living."

Hypo in 2010

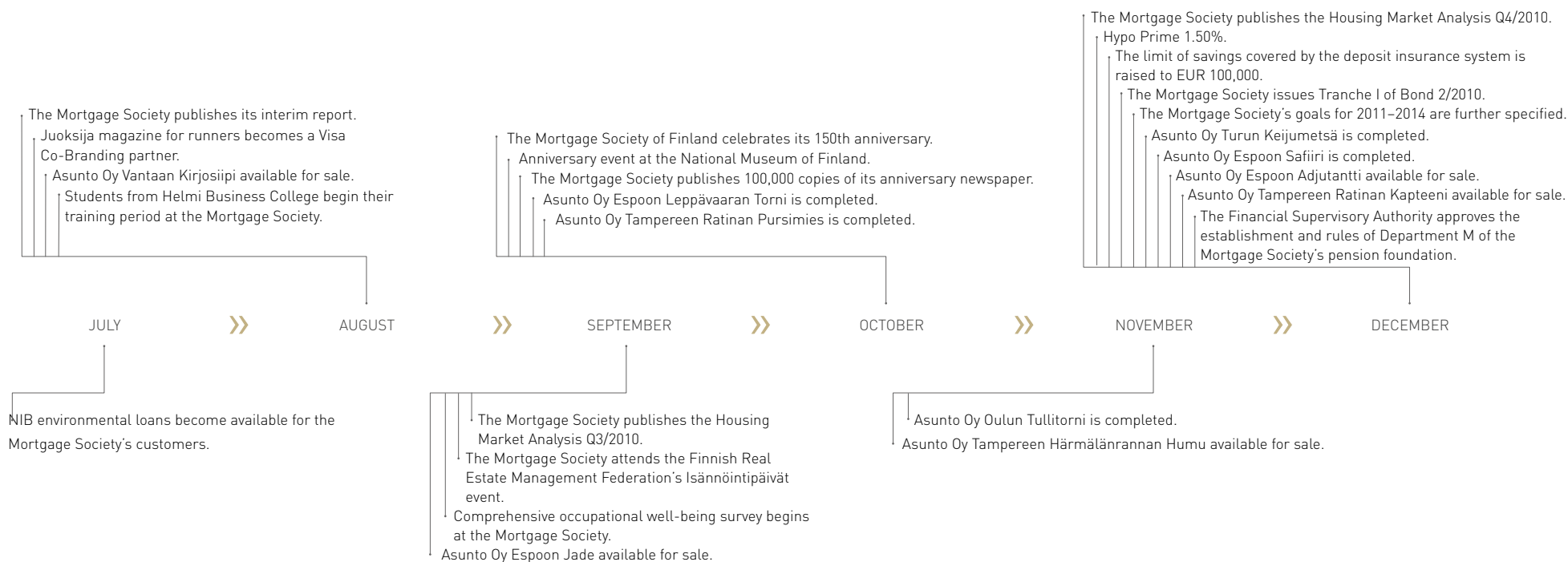




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DISCLAIMER: This document is a translation from the official Finnish annual report. Should there be any discrepancies or contradictions between this document and the Finnish version, the Finnish version shall prevail.







Hypo's 150th anniversary

Not a bad year at all

For any company, the 150th anniversary is significant, and even more so in the financial sector – just think of the global crises we have witnessed over the past few years.

In October 2010, the Mortgage Society of Finland, also known as Hypo, celebrated its first 150 years, still under its original name and in its original field, but with a cutting-edge business concept.

The secret of the success Hypo has enjoyed in recent years is specialisation – specialisation in home financing. We are one of a kind. Our competitors are retail banks; that is, financial department stores where the most important financial operation of people's lives – applying for a mortgage loan and purchasing a home – is just one standard product among hundreds of others. For us, it is a very special product, for we specialise in home financing.

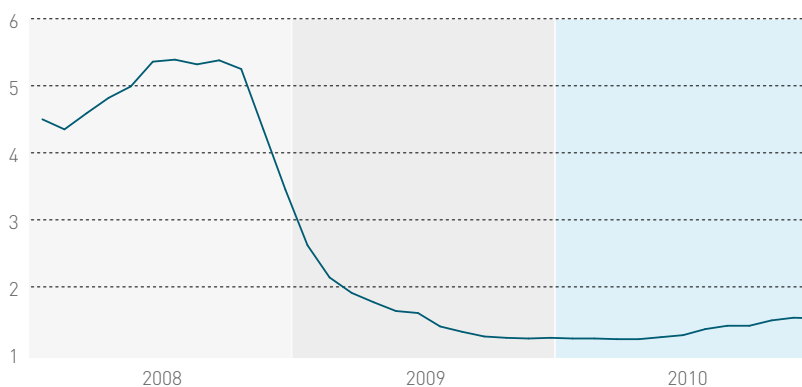
OUR ANNIVERSARY YEAR WAS A SUCCESS, AS EXPECTED.

National debt crises created tension and problems, especially in Europe. We, too, were worried and monitored the situation closely, preparing for new problems in the financial market.

The Finnish housing market, however, functioned well. After the worst was over in the financial crisis, tough competition kept mortgage loan prices low – the lowest in Europe, much to the benefit of consumers. Although the pricing did not do much for high profitability, the small streams of income constituted a strong result: an operating profit of EUR 2.2 million is quite good by our standards. That makes EUR 83,000 per employee, which is also good, and inspires us to raise the bar to, say, EUR 100,000 per employee in 2011.

Other key figures developed favourably as well. Our overall capital adequacy ratio rose by more than 1 percentage point to 18.9 percent.

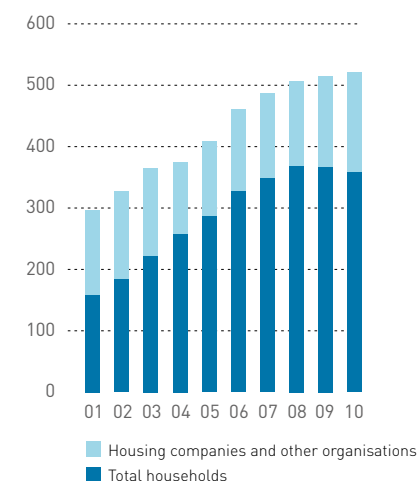
12-month Euribor rate, daily average, %



Because of risks related to the business environment, we kept our liquidity relatively high: EUR 63 million. We were particularly pleased with the considerable decrease in the credit risk indicator; that is, non-performing loans. In 2009, our non-performing loans totalled EUR 2 million, which is not much considering our total lending. Now this total has decreased by about 50 percent to less than EUR 1 million, with a low amount of recorded credit losses.

Mortgage loan banks are usually asked about their loan-to-value ratio, which indicates the amount of mortgages as a percentage of the total value of the real property serving as collateral. In 2010, our loan-to-value ratio was 57.9 percent, which means that we have a very low risk level.

Structure of the loan portfolio, EUR million



Our extremely strong balance sheet, favourable credit risk outlook, positive market expectations and the famous Hypo spirit will also enable us to succeed in the housing market through 2011.

Finally, I would like to take this opportunity to thank our customers and employees for a successful anniversary year.

Matti Inha
CEO, honorary financial counsellor



Financial year 2010

HYPO'S SCORECARD

Since 2002, the Hypo Group (Mortgage Society of Finland Group) has used the Balanced Scorecard (BSC) performance management tool to guide and monitor its business operations. Within the BSC framework, each employee has annual personal goals that are based on goals set by the Board of Directors for the entire Hypo Group. The scorecards are divided into five aspects: customers, finance, processes, competence and well-being at work, and risk management.

CUSTOMERS

The total number of our customers exceeded 23,000 in 2010, and they used our services more extensively than before. We are particularly pleased with the increase in the number of online banking customers. They now total more than 5,000, representing over 20 percent of our customer base. This is an excellent achievement, considering that all our customers have current accounts with other banks and use the related online services. Yet they remain loyal to Hypo – even though other banks actively market their services to these customers. First and foremost, we have our customer service professionals to thank for this achievement: according to a customer survey carried out in the autumn of 2010, about 60 percent of all Finns know Hypo as a home financing specialist. Our strong recognition is based on customer satisfaction and high overall visibility.

In 2010, our operations were reorganised to enhance customer service: most of our employees now work in direct contact with customers. This has improved the quality of our customer service despite the increasing number of contacts, which are more multifaceted than before. In 2001, before the restructuring programme, 40 percent of our employees worked in customer service and 60 percent in administration. Today, 75 percent work in customer service. The change has been very significant, but it has been implemented in a controlled and consistent manner over the long term.

FINANCE

Our key goal was to improve profitability and net interest income in 2010. We aimed for an operating profit of EUR 3 million – and achieved one of EUR 2.2 million. That makes EUR 83,000 per employee, which is more than double the average in the banking business. In 2010, our operating profit was challenged by the establishment of a new department (Department M) in our pension foundation as well as marketing and visibility campaigns related to our 150th

anniversary. In addition, we recruited new employees to support our risk management and operational activities. Our loan portfolio only grew by 1 percent compared to 2009, with the market growth rate being as much as 6 percent. However, our net interest income improved, with our non-performing loans decreasing by about 50 percent to less than EUR 1.0 million. Besides, the average margin on Hypo's loan portfolio is presently about 1 percent. In other words, our loan portfolio is healthily priced and low-risk. In addition, our deposit base increased by more than 1.2 percent to EUR 131 million.

PROCESSES

In 2009, we received 26,000 customer applications, the highest number in our history. In 2010, applications from customers totalled 18,200, of which about 4,000 concerned loans, about 1,000 deposits, about 7,500 Visa cards, about 2,500 online banking, about 3,000 amendments and renegotiations and about 200 rental apartments. This means that each of our customer service professionals processed about 1,000 applications and managed the related customer contacts. The introduction of TUPAS, an online authentication method created by the Federation of Finnish Financial Services, was reflected in the total number to some degree, improving the quality of applications and the related contacts. We made more than 40,000 customer calls in 2010, which is over 2,200 calls per each customer service professional. This goes to show that Hypo has established a strong and stable position as a small and efficient expert organisation.

COMPETENCE AND WELL-BEING AT WORK

In 2010, we examined well-being at Hypo in collaboration with Mehiläinen Occupational Health Care. The study was based on an extensive Nordic standard, and the results were excellent: Hypo is in very good shape, especially as an expert organisation. In a way, this study marks the successful end of the extensive restructuring process that began in late 2002: Hypo has developed from a bank organisation into an expert organisation. Almost all of our customer service employees have earned the status of a home financing manager and have also completed licensed real estate broker diplomas (LKV in Finnish).

RISK MANAGEMENT

Hypo's business goals for 2011–2015 were further specified based on analyses and preparations carried out during the past two years. Our key goals are business growth, improved profitability and enhanced risk management. In 2010, we identified the risk management challenges related to our chosen growth path. We decided to enhance our risk management competence and resources by hiring Mikko Huopio, Master of Laws (trained on the bench), from Sampo Bank as risk manager, beginning in March 2010. He belongs to Hypo's Management Group as a member independent of the company, also acting as its secretary. Within the company, he is additionally responsible for undertaking the independent duties of a compliance officer and a number of tasks related to internal auditing. Our internal information technology competence was also enhanced by hiring Ari Korkia-Aho from Samlink Ltd as IT specialist. During 2011, we will strengthen our customer service resources, aligning them with our growth goals.

FUTURE PROSPECTS

The work carried out between 2002 and 2010 created a very strong foundation for business growth. We have many indisputable strengths: we are a widely recognised specialist among our customers and the general public alike. We offer a diverse and extensive selection of products and services that are based on profitable pricing and careful risk management. In addition, Hypo is a community of committed and motivated specialists whose interaction and collaboration have further deepened during the years of restructuring. We also have a growing number of member customers, and the members of our administrative bodies are goal-orientated, highly competent and strongly committed. Moreover, a wide network of recognised specialist organisations and subcontractors supports our operations. Together, these strengths offer us excellent opportunities to reach our goals – despite changes in the business environment, whatever they may be. Of this I am absolutely certain.

Ari Pauna
Chief Operating Officer



1860 – 2010
150 years

SMALL, AGILE AND EFFICIENT

After two restructuring programmes and a change in strategy, the Mortgage Society of Finland is in good shape.



At the end of 2010, the Mortgage Society's own assets amounted to EUR 72 million. Its credit portfolio totalled EUR 520 million, and it had EUR 100 million in deposits. On the balance sheet, the Mortgage Society's properties are valued at the acquisition cost, so the society has a great deal of hidden wealth. During both recessions, the Mortgage Society has been profitable year after year. In other words, the Mortgage Society is in good shape.

Its current state, however, was not easy to achieve – instead, it required major strategic changes. Professor **Jarmo Leppiniemi** has been a member of the Mortgage Society's Board of Directors since 2000 and its chairman since 2001. Before becoming a member of the Board, he served as an auditor of accounts.

The Mortgage Society has undergone a two-stage restructuring programme, which was implemented by the Board, under the supervision of Leppiniemi and in collaboration with the Mortgage Society's operational staff, headed by CEO Matti Inha.

Previously, the society's customer base mainly consisted of housing companies, and the low number of loan customers posed problems.

"When existing loans were expiring and the customer base was becoming too small, we needed a strong increase in sales. We shifted our focus from housing companies to households and mortgage loans," Leppiniemi says, explaining the situation in the early 2000s.

The growing number of customers enabled the second stage of the restructuring programme to begin. As an essential part of the programme, the Mortgage Society of Finland established its own bank, Suomen AsuntoHypoPankki, which made it possible to take deposits from customers.

“Bank operations require high volumes, which reduce the risks. It would have been impossible to leave the bank dependent solely on housing company customers, for example.”

And so the Mortgage Society became a single-purpose movement. It is not a “general shop,” as Leppiniemi puts it, but a specialist company focusing strictly on home financing. Its only office is located in the heart of Helsinki, on the corner of Bulevardi and Yrjönkatu.

With the decision to focus on the Mortgage Society’s core competence, the Board decided to sell the society’s stock portfolio in 2007. The timing was perfect.

SMALL EXPERT ORGANISATION

According to Leppiniemi, the decision to focus on home financing means that the Mortgage Society must lead the way by introducing innovative products that are as difficult to copy as possible. This goal was also entered onto Matti Inha’s personal scorecard. He became the Mortgage Society’s managing director in 2002.

“His pay partly depends on whether he comes up with new ideas and whether these ideas are implemented,” says Leppiniemi.

“We are trading money – that is, buying deposits and selling loans. This means that the products are very similar, and it is difficult to create a unique brand. Money is the same everywhere; no-one has better money than anyone else. In addition, the competition is quick to copy products, so we must constantly come up with something new in order to stay ahead.”

Reverse mortgages are an example of products that the Mortgage Society has brought to Finland and that are difficult to copy, because they require top expertise in, for example, value assessment.

“Reverse mortgages must be tailored precisely to customers’ needs. This is something that large companies operating in all of the possible banking sectors cannot pull off,” Leppiniemi points out. “The Mortgage Society only has one office and highly trained employees, who are able to process loan applications consistently. If a bank has, say, a hundred offices, it is difficult to train all employees and share the required expertise sufficiently.”

” History emanates from the Mortgage Society’s office premises, but its business is cutting-edge: most of its customers use the Mortgage Society’s website for their banking.

About 75 percent of the Mortgage Society’s employees work in customer service. Almost half of its employees have completed their licensed real estate broker diplomas (LKV in Finnish).

“We claim to be an expert organisation specialising in home purchases. This means that our employees must know all there is to know about mortgage loans.”

Training and process enhancement have reaped results. In 2001, the society had 28 employees, who processed 1,500 loan applications and sold a total of EUR 80 million in loans. In 2009, a record-breaking year, the Mortgage Society’s 24 employees processed 6,000 loan applications. Despite the severe recession, the loans they sold that year totalled EUR 130 million.

History emanates from the Mortgage Society’s office premises, but its business is cutting-edge: most of its customers use the Mortgage Society’s website for their banking. This is one of the decisive factors behind the increased efficiency.

Speaking of history, when Leppiniemi writes entries in the society’s balance book, he uses the same book that was used by Johan Vilhelm Snellman, an influential Finnish statesman and philosopher in the nineteenth century. Like Leppiniemi, Snellman also served as the chairman of the Board of the Mortgage Society of Finland. In addition, Snellman was the CEO of the society.

WELL-CONSIDERED WORDS

Its mortgage customers, who number about 10,000, own the Mortgage Society of Finland. The total customer base is about 23,000. The Act on Mortgage Societies prohibits societies from distributing profit.

“The owners benefit from stable mortgage loans with very competitive terms. We don’t sell empty promises. Because our owners are debtors, we operate as openly as possible. For example, our loan payment slips often include our interest rate outlook, even though providing this information may conflict with the bank’s short-term financial gains.”

More than EUR 250 million of the Mortgage Society’s refinancing was acquired through bonds and certificates of deposit, which were well-received by the market.

“Investors have retained their trust in the Mortgage Society in the middle of financial and governmental crises.”

Matti Inha, CEO of the Mortgage Society, is the embodiment of the Finnish housing market, an authority interviewed and cited often by the media. Nonetheless, Leppiniemi thinks the Mortgage Society’s visibility should be improved.

Published quarterly and cited frequently, the Mortgage Society’s Housing Market Analysis is a cost-efficient way to increase the society’s visibility. The publication is prepared by the CEO and experts of the Board.

“The analysis contains well-considered words, even though it is written in Inha’s trademark style, which is quite informal and humorous. The writers are always honest: they will let readers know if they think a downswing is in sight,” says Leppiniemi.

The first 150 years of the Mortgage Society of Finland (Hypo): two employees reminisce

30 years of meaningful and rewarding work



Over the years, **Marja Niemelä** has held several positions at the Mortgage Society of Finland – Hypo to its friends. All of her duties have been marked by meaningful content and pleasant colleagues. “I have felt at home here. That’s why I have stayed,” Marja says. Her present duties cover a wide range of areas: rental apartments, collaterals and deposits, as well as funding and other services related to new developments.

Marja was hired by the Mortgage Society of Finland in the summer of 1976, after completing middle school. She got the first job she applied for.

Through her grandfather, she was also offered a job at another bank, the late Kansallis-Osake-Pankki. Making an independent decision was important to her. “I remember not being quite sure about what Hypo meant. I wondered if it was something medical,” she explains.

But she soon found out: her first job was in the financial department. “I learned a lot from the very beginning, as older colleagues delegated all kinds of tasks to me. One of the first things I noticed was that people made long careers here, and that is still the case. People usually leave Hypo through retirement. We are a small and close community, and it is a pleasure to work here.”

“I have also continued my education while working here. I have graduated from upper secondary school and passed the matriculation examination. In addition, I have pursued an accounting diploma as well as a licensed rental broker diploma, which is important in my work.” With further education, her duties have become more challenging.

” The deposit bank continues to be important, in addition to our wide selection of other products and services. But mortgages are still our thing.

“Computers appeared in the bank hall in the late 1970s. Customers’ loan repayments were recorded on magnetic cards, which were then used to update their loan balances. The information was checked carefully before it was entered in the system – that is, data cards in the computer that contained all customer information. I remember wondering why computers were so huge; many times larger than modern desktop computers, yet much less powerful.”

The telephone has always been an important tool. “In the early days, we did not have a switchboard. Every employee had a direct number, and my job was to answer the calls whenever people were not present. In the 1980s, our first switchboard was placed at my workstation, which was located in the middle of the bank hall. From there, I could immediately see who was available and who wasn’t.”

“At the time, we had customers across the country, and we served them from our only office in Helsinki. In the 2000s, we prefer face-to-face meetings rather than phone calls, and so do our customers. There is always e-mail, of course, but many customers want to visit our office simply because it’s so beautiful,” Marja says. “Hypo’s overall visibility has improved a great deal. The deposit bank continues to be important, in addition to our wide selection of other products and services. But mortgages are still our thing.”

Hypo's lawyer prevents credit loss

Pekka Karttila became the lawyer of the Mortgage Society of Finland in the early 1980s when his predecessor accepted a job with an employers' organisation. Karttila's first job was to ensure that Hypo keeps credit risks in check. Then he was responsible for internal auditing and, from the beginning of 2011, again for credit risk monitoring.

"At Hypo, the lawyer has always checked the credit documents and securities before the loan amount has been transferred to the customer. This has been done to secure Hypo's receivables in all circumstances. On the other hand, the Act on Mortgage Societies and the Society's rules detail the securities against which loans can be granted. This means that, in practice, our lending has been very security-orientated, true to the traditions of the best mortgage credit banks. This partly explains why we have been able to maintain extremely low credit loss levels throughout the years," Karttila says.

”Hypo is included in all housing loan comparisons in the media. This goes to show how much Hypo's visibility has increased in recent years.”

Over the past three decades, Karttila's job has remained the same, but Hypo has transformed.

"Hypo's core business, loans from government funds for agriculture and natural means of livelihood, began to dwindle as the competition, co-operative banks and savings banks, increased their market shares in the late 1970s. However, Hypo's new managing director, Osmo Kalliala, turned the Society back onto the growth track.

"Based on his ideas, Hypo began to issue loans for home builders. It collected funding from many different sources and issued the loans through a network of collaborating banks. We had customers all around Finland, and most of them were outside the capital region. This concept worked extremely well in the regulated financial market of the mid-1980s."



At that time, courts granted the mortgages needed for single-family houses. For historical reasons, Hypo had a significant advantage over its competition.

"In the late nineteenth century, the Russian emperor had granted the Mortgage Society of Finland the right to apply for mortgages by mail. Only some governmental offices had the same right. We were able to manage all our customers' mortgages by mail from Helsinki, while other banks had to apply for them physically in court," Karttila explains.

Karttila has only good words to say about his long-term employer. "Hypo is much more significant than its small size suggests. The number of personnel has hardly increased over the past 25 years, but our loan portfolio and balance sheet have grown strongly. In a small community, everyone has a diverse job description. Hypo is a financially sound organisation specialising in home financing and housing,

and it will continue to hold its own among Finnish credit institutions. There is no doubt that Hypo will prevail for another 150 years. Finland will continue to have a housing market that functions well, and people will need loans for purchasing the home of their dreams."

"In 1985, after an upswing in Hypo's business, a financial magazine published an article titled A Relic Revived. Today, mainstream media cite the quarterly Hypo Housing Market Analysis widely, and Hypo is included in all housing loan comparisons. This goes to show how much Hypo's visibility has increased in recent years."

The Mortgage Society of Finland offers products and services for everyone, from babies to grandparents.

GOOD OLD HYPO DEPOSIT is tailored to each customer's individual needs. This long-term deposit can be made for as much as ten years. Good Old Hypo Deposit is a safe option for long-term saving!

HYPO CLASSIC MIXED DEPOSIT is a safe, rewarding and worthwhile alternative to investing in funds.

HYPO AVISTA is the most flexible deposit account on the market. Hypo Avista offers an attractive interest rate, and the savings can be used at any time without limits or fees. This product is available for individuals, companies and housing companies alike.

PS.HYPO RETIREMENT SAVINGS SERVICES are principal-protected and tax-deductible retirement savings products. There are no fees, and the savings are placed in Hypo PS deposit accounts and fixed-term deposit accounts, which are covered by the Deposit Guarantee Fund.

HYPO LOAN MANAGEMENT ACCOUNT is intended for our loan customers. Offering a better-than-usual interest rate on the money reserved for loan payments, this product helps our customers save on loan expenses.

THE HYPO ASP ACCOUNT is a traditional savings account for young first-time homebuyers within the state-subsidised ASP scheme, which consists of pre-saving and a home loan with an interest subsidy. Hypo ASP offers a very competitive additional interest rate after the homebuyers have reached their savings goal and found their dream home.



HYPO BABY, HYPO GRADUATION AND HYPO WEDDING are perfect gifts for future homeowners saving for their first home. In addition to competitive interest rates, these solutions offer higher interest for diligent savers in accordance with account terms and conditions.

HYPO VISA AND HYPO VISA COB CARDS – A GROWING FAMILY OF CARDS WITH INCREASING BENEFITS

With no annual fee, **HYPO VISA CLASSIC** is the **VISA CLASSIC CHARGE** card with the greatest versatility and the lowest interest rate on the market. The card offers a limit as high as EUR 20,000 and an additional credit limit of a maximum of EUR 20,000 with no credit facility charge. In addition to the main card, two parallel cards can be issued to family members living in the same household who are 16 years of age or over.

HYPO VIP VISA is a personal Visa Classic charge card for corporate use, with a credit limit for employees.

HYPO VISA CO-BRANDING enables our trusted partner companies to select a design of their choice for the Visa cards used by their customers and employees. In addition to competitive terms, affordable fees and many other benefits, Hypo Visa entitles its users to a growing number of special offers and other incentives from various service providers.



SPECIAL SOLUTIONS FOR HOME FINANCING

HYPOT HOME LOAN is a mortgage loan customised to the customer's individual needs. Customers are not required to transfer their current accounts to the Mortgage Society. Hypo Home Loan is flexible, allowing for free months and even free years based on the customer's life situation.

HYPOT JOINT OWNERSHIP is a popular way of making dreams come true when the customer is not yet completely certain about buying a home. When the customer finds that dream home, the Mortgage Society and the customer buy this home together, and the customer lives there as partial owner. The customer has the option of buying the entire home within four years.

HYPOT GUARANTEE is an additional collateral instrument offered by the Mortgage Society and a partner for buying a home. Hypo Guarantee can be combined with a home loan or a loan taken to buy an apartment.

HYPOT REVERSE, a reverse mortgage and a reverse purchase, is a popular and controlled way of making funds available for the everyday needs for customers on the verge of retirement or during retirement.

HYPOT HOME-SECURED is an inexpensive and flexible home-secured consumer loan that can be used to buy a car, a boat or a summer cottage, to name just a few examples.

The Mortgage Society has served customers in its traditional bank hall for more than 80 years.

ASP LOAN AND THE RELATED ASP ACCOUNT are excellent traditional solutions for home savers. Combined with a Hypo Guarantee, the ASP Loan offers first-time homebuyers a flexible solution for making their dream come true.

HYPOT STUDENT LOAN is a state-guaranteed study loan. This loan is available to our member customers as well as their children and grandchildren on special terms.

HOUSING COLLATERAL CUSTODIAL SERVICE is a service we offer to our member customers free of charge. This solution ensures the safety of collateral documents and also enables quick and flexible decisions on additional loans.

THE MORTGAGE SOCIETY'S HOUSING COMPANY LOANS, including loans with low capital charges, offer the widest selection of financing options on the market for housing companies, based on apartment owners' individual needs.

HYPOT CREDIT FACILITY is a financing solution tailored to the needs of housing companies. Hypo Credit Facility is ideal for financing major renovation projects, for example. It can be converted into a long-term loan after the project is completed and the housing company is better aware of its total loan requirements.

Please visit www.hypo.fi for expert information and services related to home financing, deposits and Visa credit cards and www.hypopankki.fi for easy online banking!

BANKING SERVICES

THE MORTGAGE SOCIETY'S ONLINE BANKING SERVICE offers customers a secure and encrypted channel for monitoring their loans, deposit and Visa purchases. You can log in with the user ID you have received from your current bank, fill out the contract at www.hypo.fi and become one of our online banking customers. Your user ID and password list will be mailed to your home address.

THE MORTGAGE SOCIETY'S RENTAL APARTMENTS AND INNOVATIVE IDEAS FOR FINANCING NEW DEVELOPMENTS

The Mortgage Society has rental apartments at good locations around the capital region. The Mortgage Society's rental apartments are an excellent solution to your housing needs in different life situations.

AN IN-BETWEEN APARTMENT is an excellent way to avoid the two-home trap for customers in the process of buying or building a new home.

HYPO KEY is a personalised housing solution for key employees of our co-operation partners.

TEMPORARY HOMES is a concept developed by the Mortgage Society and its construction partners for customers who have bought a home in a new development and want to avoid the two-home trap.

HYPO SITE is a solution that enables housing companies to allocate owner-specific plot costs over a long period of time. The shareholders of the housing companies can decide whether they want to purchase their share of a plot all at once or continue to rent his/her share of the plot for time being. Hypo Site is available in our partners' new residential developments in major growth centres in Finland.

Our **RS BANKING SERVICES** are available to our partners. Visit our website at www.hypo.fi for more information on funding and related services for new developments.

INVESTORS

THE MORTGAGE SOCIETY'S CERTIFICATES OF DEPOSIT AND BOND PROGRAMMES are highly popular among fixed-income investors, who value the transparency of the Mortgage Society's balance sheet. The key elements in the Mortgage Society of Finland Group's funding are a high capital adequacy ratio, strong liquidity position and home-secured housing collateral credit portfolio, which is typical of mortgage credit banks.

THE MORTGAGE SOCIETY'S CERTIFICATES OF DEPOSIT are available to investors with an investment need of at least EUR 100,000 for not more than a year.

THE MORTGAGE SOCIETY'S BONDS are based on a EUR 400 million bond programme organised by Sampo Bank. The programme consists of separate investor-orientated issues.

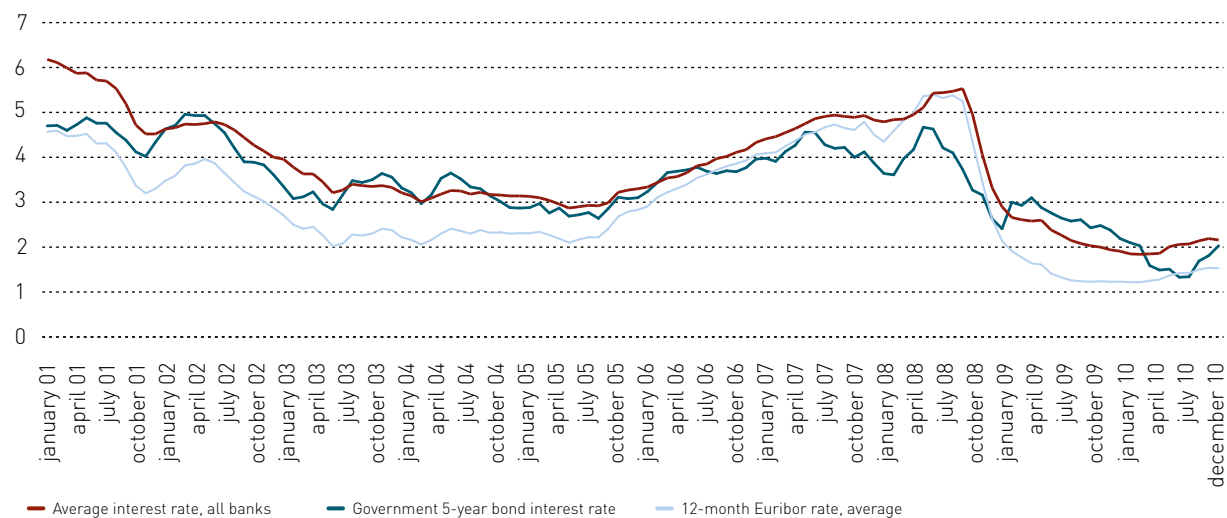
LONG-TERM DEPOSITS for a year and longer periods are a welcome and secure addition to an investment portfolio.

FINANCIAL KEY FIGURES

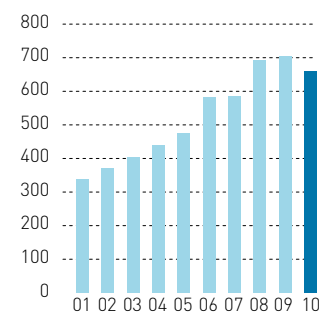
FINANCIAL KEY FIGURES FOR 2006–2010

	2006	2007	2008	2009	2010
Turnover, EUR million	23.4	34.9	33.4	30.8	23.1
Operating profit/profit before appropriations and taxes, EUR million	4.8	9.5	1.5	3.0	2.2
% of turnover	20.6	27.3	4.4	9.8	9.7
Return on equity (ROE), %	6.8	10.2	1.4	3.1	2.3
Return on assets (ROA), %	0.8	1.2	0.2	0.3	0.2
Equity ratio, %	11.8	12.5	9.8	9.9	11.1
Capital adequacy, %	18.2	20.4	18.5	17.5	18.9
Own funds, EUR million	64.0	66.9	67.5	69.5	71.6
Minimum requirement of own funds, EUR million	28.2	26.2	29.3	31.4	30.3
Cost/income ratio, %	45.0	31.6	75.6	60.4	71.0
Average personnel	29	30	28	24	27
Salaries and remuneration, EUR million	1.3	1.9	1.6	1.7	1.5
Balance sheet total, EUR million	582.9	586.5	692.6	703.4	660.8

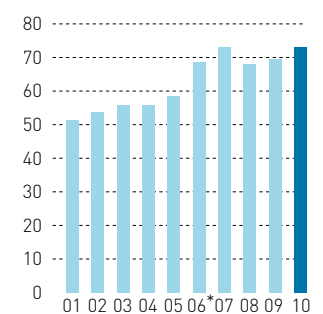
New mortgage loans from banks for households, average interest rate 2001–2010, %



Balance sheet total, EUR million

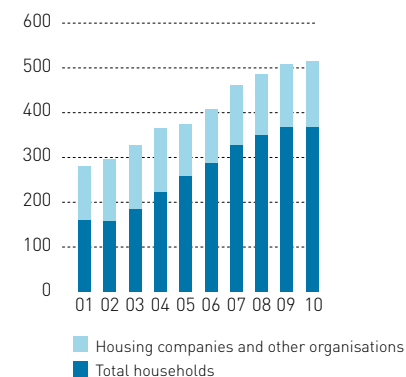


Equity



* Since 2006, equity is presented in accordance with IFRS.

Structure of the loan portfolio, EUR million



Annual management report

THE MORTGAGE SOCIETY OF FINLAND GROUP

The Mortgage Society of Finland Group is the only expert organisation specialising in home financing and housing in Finland. The Mortgage Society of Finland (hereafter also "the Mortgage Society") has its domicile and administrative headquarters in Helsinki, and it operates in the entire country of Finland. The Mortgage Society of Finland (the parent company of the Mortgage Society of Finland Group) is a mutual company governed by its member customers. The company is an authorised credit institution as specified in chapter 3 of the Act on Credit Institutions (121/2007), operating in retail banking.

The Mortgage Society of Finland Group's consolidated financial statements cover the Mortgage Society of Finland (the parent company), Suomen AsuntoHypoPankki (a subsidiary owned entirely by the parent company; hereafter "AsuntoHypoPankki") and Bostadsaktiebolaget Taos (a real estate subsidiary, of which the parent company owns 61.9 percent; hereafter "Taos"). AsuntoHypoPankki offers its customers secure deposit products, Visa cards and residential property management services. AsuntoHypoPankki is a member of the Deposit Guarantee Fund. Taos owns and manages the plot and properties and rents out office premises. The Mortgage Society's customer service facilities are located in premises owned and managed by Taos. The Mortgage Society of Finland Group's business operations constitute a single segment, retail banking.

GROUP STRATEGY AND GOALS

The Mortgage Society of Finland Group aims to constantly complement its traditional home financing and housing products with new, alternative and customer-orientated solutions. The Group aims at steady and profitable growth in its loan portfolio and customer relationships, while carefully managing risks. Profits will be used to maintain a high capital adequacy ratio and to develop competitive products for the benefit of customers. In accordance with the Group's strategy,

the Board of Directors sets the Mortgage Society of Finland Group business goals, which are confirmed, entered onto scorecards and monitored annually.

OPERATING ENVIRONMENT

The Mortgage Society of Finland celebrated its 150th anniversary in 2010. During the financial year, housing costs and household assets tied up in housing increased because of rising house prices and rents. Both the Euribor and long-term interest rates began to rise in the second half of 2010.

During 2010, the prices of old flats increased by 8.8 percent across the country (11.4 percent in the capital region and 6.6 percent elsewhere in Finland). Rents for privately financed rental flats increased by 1.6 percent during the year. The 12-month Euribor rate, which is the most commonly used reference rate for mortgage loans, rose by 0.4 percentage points compared to the end of 2009 (Sources: Prices of dwellings and Rents of dwellings, 2010, 4th quarter, Statistics Finland; Financial Market Report – Financial Stability and Statistics, 2/2011, Bank of Finland).

More than 80 percent of new mortgage loans were tied to Euribor rates. Measured in euro, new mortgage loan agreements made by households, as well as agreements based on renegotiating existing loans, increased by 6.8 percent compared to 2009 (in 2009, the increase was 6.4 percent compared to 2008) (Source: Financial Market Report – Financial Stability and Statistics, 2/2011, Bank of Finland).

The retail savings market continued to grow in Finland in 2010. Retail savings increased by 5.2 percent during the financial year (0.5 percent in 2009) and the average interest rate by 0.06 percentage points. The Hypo Prime interest rate, which is the reference rate for the Mortgage Society's sight deposits, was raised from 1.25 percent to 1.50 percent in December 2010 (Source: Financial Market Report – Financial Stability and Statistics, 2/2011, Bank of Finland).

The Mortgage Society of Finland continued to publish its Housing Market Analysis, a quarterly report. This valued and widely recognised analysis provides concise information on

the housing market as well as market changes and other topical issues for those operating in the housing market. The analysis is based on a combination of key factors, such as supply and demand, interest rates and house prices.

ASSET QUALITY AND FUNDING

Most of the Mortgage Society's assets are invested in lending. Part of its funds is invested in liquidity investments, homes and residential plots. The Mortgage Society's funding activities are market-based and comply with the conditions set for neutralising the risk position in lending operations in terms of interest rates and other factors.

Lending

The Mortgage Society of Finland Group's lending focuses on mortgage loans for households secured against residential property and the related financing services. The Mortgage Society's loan portfolio grew by 1.1 percent in 2010 (1.6 percent in 2009), partly because of margin management and credit-risk considerations, which were given more weight than growth goals. Drawn new loans (including renegotiated loans) totalled about EUR 117.2 million for the Mortgage Society of Finland Group (EUR 130.4 million in 2009). Compared to 2009, the amount of loans that were issued during the financial year but remained undrawn at the end of the year increased by EUR 54.0 million.

The Mortgage Society of Finland Group's loan portfolio mainly consists of property-secured loans granted to households in the Uusimaa region for the purchase of a permanent home. The loan-to-value ratio of the Mortgage Society of Finland Group's credit portfolio was 57.9 percent at the end of 2010.

The amount of non-performing assets related to lending (receivables that have been overdue for more than three months) remained very low, totalling EUR 0.998 million, which represents 0.19 percent of the loan portfolio. At the end of 2009, non-performing assets totalled EUR 2.1 million.

At the end of 2010, the Mortgage Society of Finland Group's credit portfolio was composed as follows:

Lending by category	2010	%	2009	%
Lending by customer group, EUR 1,000				
Households	357,381.4	69 %	367,082.8	71 %
Housing corporations	118,802.9	23 %	103,900.8	20 %
Private companies	40,090.5	8 %	41,728.4	8 %
Other	4,173.8	1 %	2,304.1	0 %
Total	520,448.7	100 %	515,016.1	100 %
Lending by purpose, EUR 1,000				
Permanent dwelling	457,964.3	88 %	443,708.1	86 %
Consumer loan	24,844.1	5 %	24,069.1	5 %
Secondary residence	6,593.6	1 %	6,930.0	1 %
Other	31,046.8	6 %	40,309.0	8 %
Total	520,448.7	100 %	515,016.1	100 %

The category "Other" mainly includes loans granted for investments in apartments and residential plots.

Lending by region, EUR 1,000	2010	%	2009	%
Uusimaa	421,662.3	81 %	428,334.3	83 %
Rest of Finland	98,786.4	19 %	86,681.9	17 %
Total	520,448.7	100 %	515,016.1	100 %

Of the mortgage loans granted to household customers, 40 percent have fixed interest rates. In other banks, the proportion of fixed interest rate loans is considerably lower, only 6 percent. In other words, the Mortgage Society's customers are better protected against rising interest rates and will not incur any additional costs. Furthermore, they are aware of the maximum level that their loan management costs can reach in any case. In its acquisition of assets, the Mortgage Society has protected itself against rising interest rates in a similar manner.

Liquidity

The Mortgage Society of Finland Group continued to maintain a strong liquidity position in 2010. At the end of the year, cash and cash equivalents in the cash flow statement, combined with current accounts and other binding credit facilities, totalled EUR 116.1 million (EUR 157.8 million at the end of 2009). 42.7 percent of the cash and cash equivalents consisted of highly dispersed investments (with maturity between 1 to 3 months) in current, mainly floating-rate instruments issued by corporate, municipal and bank counterparts. In addition to cash, cash equivalents and binding credit facilities, the

Mortgage Society of Finland has domestic programmes for issuing bonds and certificates of deposit.

Other receivables

Homes and residential plots owned and rented out by the Mortgage Society enable the Group to offer its customers a more comprehensive selection of housing products and services. The Mortgage Society's properties are located in growth centres, mainly in the capital region, dispersed across key residential areas. These properties mostly consist of flats that have been rented out as well as residential plots that have been rented to housing companies, which will purchase them gradually. In 2010, the Mortgage Society of Finland Group decreased its home and residential plot ownerships by 8.8 percent to EUR 61.3 million (EUR 67.2 million in 2009) by selling more homes and shares in residential plots than it acquired. At the end of the financial year, the fair value of the Mortgage Society's investment properties was EUR 13.6 million (EUR 12.9 million in 2009) higher than their book value. Property investments constituted 9.9 percent (9.7 percent in 2009) of the balance sheet total, which is clearly less than the 13 percent maximum stated in the Act on Credit Institutions.

The additional pension benefits for the Mortgage Society's employees, classified as a defined benefit plan, were arranged from Department A of the Mortgage Society of Finland's pension trust. The department was closed in 1991. The surplus from the assets and obligations of the pension foundation has been entered in the Group's other assets and in equity (after deferred tax liabilities). Based on actuarial calculations, the assets (IAS 19) of Department A of the Mortgage Society of Finland's pension foundation increased by EUR 326,000 in 2010. At the Group level, however, the net assets of Department A decreased by EUR 0.9 million during the financial year. This was because of the inclusion of the return of surplus (EUR 870,000) and the transfer (EUR 130,000) to the new department (Department M, established in December 2010) of the pension foundation in the Group's other assets, in addition to the IAS 19 item mentioned above.

Derivatives

Interest rate swaps, which were held to manage the interest rate risk, have been recognised at fair value and, in accordance with the cash flow hedging model, included in derivatives and the fair value reserve included in equity. The fair values of embedded derivatives related to share-index and currency-based bonds, as well as those of the equivalent option contracts, have been recognised through profit or loss, and their offset entries have been included in the derivatives in the balance sheet. The balance sheet value of receivables from derivatives was EUR 0.6 million at the end of 2010 (EUR 0.1 million in 2009), and that of liabilities from receivables was EUR 5.1 million (EUR 7.6 million in 2009).

Deposits and other funding

The key elements in the Mortgage Society of Finland Group's successful funding activities are a high capital adequacy ratio, a strong liquidity position and high quality assets, i.e. residential mortgages. The Mortgage Society of Finland Group's financial position remained stable throughout the financial year. Despite the moderate pricing, the Mortgage Society of Finland Group's deposit base increased by 12.7 percent during 2010. At the end of the financial year, the deposits were EUR 130.5 million (EUR 115.8 million in 2009), constituting 23.1 percent of the acquisition of assets (19.1 percent in 2009).

The Mortgage Society of Finland's EUR 400 million bond programme was updated on 27 December 2010 to in order to maintain issuance readiness. During the financial year, the Mortgage Society of Finland carried out three bond issues with a total nominal capital of EUR 73 million. These were used to refinance maturing bonds and other funding contracts. The remaining base of bonds and certificates of deposit was EUR 256.1 million at the end of 2010 (EUR 283.8 million in 2009), representing 45.1 percent (46.9 percent in 2009) of the total funding.

During 2010, about EUR 40 million of cash and cash equivalents were used as planned for the repayment of liabilities. The Mortgage Society of Finland Group's funding totalled EUR 564.6 million (EUR 605.0 million in 2009).

CHANGES IN EQUITY

The Mortgage Society of Finland Group's equity totalled EUR 73.2 million at the end of 2010 (EUR 69.4 million in 2009). The changes in equity are presented in more detail in the financial statements for 2010 under "Statement of changes in consolidated equity 1 January – 31 December 2010."

The balance sheet of the parent company includes, in accordance with section 46 of the Business Income Tax Act (360/1968), a general credit loss provision of EUR 12.8 million after deferred tax liabilities (EUR 12.5 million in 2009). In the consolidated financial statements, this provision is included in unrestricted equity under "Retained earnings."

THE MORTGAGE SOCIETY OF FINLAND GROUP'S RESULT, PROFITABILITY AND CAPITAL ADEQUACY RATIO

The Mortgage Society of Finland Group's operating profit was EUR 2.2 million in the financial year 2010 (EUR 3.0 million in 2009).

Impairment of loans remained moderate, totalling EUR 41,000 (EUR 0.4 million in 2009), which represents 0.01 percent of total lending.

Customer numbers increased by 4.5 percent during the financial year. The Mortgage Society of Finland's high recognisability as a Finnish expert organisation with a solid financial standing, as well as AsuntoHypoPankki's investments in deposit and Visa customerships, helped the Mortgage Society of Finland Group break the mark of 23,000 customers.

Senior management uses a performance indicator to describe and monitor the Mortgage Society of Finland Group's operations. This indicator considers net interest income, net

KEY INDICATORS 2006–2010

	2006	2007	2008	2009	2010
Turnover, EUR million	23.4	34.9	33.4	30.8	23.1
Operating profit / result before appropriations and taxes, EUR million	4.8	9.5	1.5	3.0	2.2
% of operating profit	20.6	27.3	4.4	9.8	9.7
Return on equity (ROE), %	6.8	10.2	1.4	3.1	2.3
Return on assets (ROA), %	0.8	1.2	0.2	0.3	0.2
Equity ratio, %	11.8	12.5	9.8	9.9	11.1
Capital adequacy, %	18.2	20.4	18.5	17.5	18.9
Own funds, EUR million	64.0	66.9	67.5	69.5	71.6
Minimum requirement of own funds	28.2	26.2	29.3	31.4	30.3
Cost/income ratio, %	45.0	31.6	75.6	60.4	71.0
Average number of personnel	29	30	28	24	27
Salaries and remuneration, EUR million	1.3	1.9	1.6	1.7	1.5
Balance sheet total, EUR million	582.9	586.5	692.6	703.4	660.8

The capital adequacy information is in accordance with Basel II calculation as of 2007

Definitions of key indicators

Turnover	interest income + income from equity investments + commission income + net income from financial assets available for sale + income from investment properties + other operating income	
Return on equity (ROE), %	$\frac{\text{operating profit} - \text{income taxes}}{\text{average balance sheet total (average total at the beginning and end of the year)}} \times 100$	
Return on assets (ROA), %	$\frac{\text{operating profit} - \text{income taxes}}{\text{average balance sheet total (average total at the beginning and end of the year)}} \times 100$	
Equity ratio, %	$\frac{\text{shareholders' equity} + \text{accumulated appropriations less deferred tax liabilities}}{\text{balance sheet total}} \times 100$	
Capital adequacy, %	$\frac{\text{own funds}}{\text{minimum requirement for own funds}} \times 8$	
Cost/income ratio, %	$\frac{\text{administrative expenses} + \text{depreciation and impairment losses on tangible and intangible assets} + \text{other operating expenses}}{\text{net interest income} + \text{income from equity investments} + \text{net commission income} + \text{net income from financial assets available for sale} + \text{net income from investment properties} + \text{other operating income}} \times 100$	

profit from financial assets available for sale and net profits from investment properties (excluding profits from sale), which totalled EUR 4.0 million in 2010 (EUR 4.2 million in 2009). Net interest income and rental income developed favourably compared with 2009. Net profits from financial assets available for sale decreased, because the Group had already sold most of its fixed-income fund investments already in 2009.

Fee and commission income totalled EUR 1.8 million (EUR 1.6 million in 2009), consisting of fees related to lending, trustee services and Visa cards.

Net profits from investment properties (homes and residential plots) remained at the previous year's level, amounting to EUR 5.6 million. This included EUR 2.1 million (EUR 2.7 million in 2009) of capital gains from sales of investment properties.

Administrative costs totalled EUR 5.1 million (EUR 4.6 million in 2009). Salaries and indirect employee costs increased by EUR 0.2 million compared to the previous year, constituting 45.6 percent of total administrative costs (46.0 percent in 2009). The Mortgage Society of Finland Group's pension expenses decreased by a net amount of EUR 0.2 million (EUR 0.6 million in 2009) because of an item based on the IAS 19 standard (Employee Benefits) and a transfer made to Department M of the pension foundation.

Surplus totalling EUR 0.9 million was returned from Department A of the pension foundation to the employer company (Mortgage Society of Finland). This decreased the amount of pension expenses in the Mortgage Society of Finland's financial statements but did not affect the Mortgage Society of Finland Group's result.

Other administrative costs totalled EUR 2.8 million (EUR 2.5 million in 2009). Among other things, the increase resulted from additional promotion related to the Mortgage Society's 150th anniversary and efforts to improve the Mortgage Society's overall visibility.

Depreciations amounted to EUR 0.3 million (EUR 0.2 million in 2009), consisting mainly of items related to the deposit system and Visa operations. Other operating expenses totalled EUR 0.2 million (EUR 0.4 million in 2009).

The Mortgage Society of Finland Group's cost-to-income ratio was 71.0 percent (60.4 percent in 2009).

The Mortgage Society of Finland Group's profit for the

financial year was EUR 1.6 million (EUR 2.1 million in 2009). In addition to this profit, the Group's comprehensive income includes the changes in the fair value reserve included in equity. These changes were caused by unrealised changes in the value of interest rate swaps and financial assets available for sale.

KEY EVENTS SINCE THE FINANCIAL YEAR END AND AN ESTIMATE OF PROBABLE FUTURE DEVELOPMENT

Key events since the financial year end

The financial position of the Mortgage Society of Finland or the Mortgage Society of Finland Group has not changed significantly since the end of the 2010 financial year.

After the financial year, neither the Mortgage Society of Finland nor the Group companies have been involved in administrative or legal proceedings, arbitrations or other events that would have had a significant impact on the Society's financial position. Furthermore, the Mortgage Society of Finland is not aware of such proceedings or events being under consideration or otherwise threatening the Society.

An estimate of probable future development

In the housing market, the year 2011 looks favourable in terms of business opportunities. We believe that it will be possible for the Mortgage Society of Finland Group to further increase its operating profit and customer numbers. It should be mentioned, however, that the favourable development may be compromised by problems posed by the possibly escalating national debt crises in Europe and other similar market-related problems.

BOARD'S PROPOSAL CONCERNING THE DISPOSAL OF PROFITS

According to section 21 of the Mortgage Society of Finland's rules, 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, as a percentage) 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's proposal concerning the disposal of profits:

Profits	
Profits in 2010	1,863,813.85
Retained earnings	586.58
Total profits	1,864,400.43

Proposed use	
To be transferred to a reserve fund	100,000.00
To be transferred to a contingency fund	1,750,000.00
To be reserved for purposes of public interest	0.00
To be left unused	14,400.43
Total	1,864,400.43

CAPITAL ADEQUACY AND RISK MANAGEMENT

The goals and methods of capital adequacy and risk management, as well as information on risk positions, are presented in the notes to the consolidated financial statements. The notes also include information on the requirements set for the minimum amount, quality and surplus of the Mortgage Society of Finland Group's assets. Each year, the Mortgage Society of Finland Group publishes the key information required for the analysis of its risk-bearing capacity as part of its audited financial statements and the related annual report. This key information concerns capital adequacy and risk management. Information on capital adequacy and the requirement set for the minimum amount of assets is also included in interim reports.

The Mortgage Society of Finland Group estimates that its surplus of assets is at a good level, both in terms of quantity and of quality, and sufficient to also cover operations falling outside the minimum requirements set for credit institution operations and the risks related to the operating environment.

ADMINISTRATION AND GOVERNANCE SYSTEMS

The operations of the Mortgage Society of Finland are governed by general laws and regulations on credit institutions as well as the Act on Mortgage Societies. As the licensing authority, the Financial Supervisory Authority monitors the operations of the Mortgage Society of Finland and the Mortgage Society of Finland Group. The Mortgage Society of Finland is not a listed company, but it issues bonds that are traded publicly. For this reason, the society must comply with many of the regulations on listed companies. With certain exemptions, the Mortgage Society of Finland adheres to the Securities Market Association's Finnish Corporate Governance Code. In conjunction with this annual report, statements on the administration and governance systems of the Mortgage Society of Finland, as well as the internal auditing and risk management systems related to financial reporting, have been published on the society's website at www.hypo.fi/hypo.

PERSONNEL, INCENTIVES, COMPETENCE DEVELOPMENT AND PENSION LIABILITIES

The average number of permanent employees at the Mortgage Society of Finland Group was 25 during the financial year (24 in 2009). At the end of the financial year, permanent employees totalled 25 (23 in 2009). These figures do not include the managing director and his deputy. The average number of temporary employees was 2 during the financial year (0 in 2009). At the end of the year, the number of temporary employees was 2 (0 in 2009). Two permanent employees were hired during the financial year, and no permanent employment relationships were discontinued. The Group co-operated with Helmi Business College by offering internships to students pursuing a diploma in business and administration.

Of the Mortgage Society of Finland Group's personnel, about 75 percent work in direct customer service and about 25 percent in administration. The average age of employees is 47.8 years. At the end of the year, the youngest employee was 30 years of age and the oldest was 61. The employees have worked an average of 11.9 years for the Mortgage Society of Finland Group. Of all employees, 65 percent are women and 35 percent are men. Two of the six members of the Management Group are women. Of the Mortgage Society of Finland Group's

employees, 31 percent have a higher education degree and 69 percent have graduated from a university of applied sciences (polytechnic) or completed upper secondary education. Of the women employed by the Mortgage Society of Finland Group, 18 percent have a higher education degree and 82 percent have graduated from a university of applied sciences (polytechnic) or completed upper secondary education. For the men, the proportions are 56 and 44 percent, respectively.

All permanent employees are covered by the Mortgage Society of Finland Group's incentive and benefits plan, which considers the company's success and the success of the different departments, as well as personal performance. The system 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 on the motion of the managing director. Decisions about rewards for the managing director and his deputy are made by the Compensation Committee of the Mortgage Society of Finland upon a proposal of the Board of Directors. For reasons of caution, rewards are paid after a delay – this procedure was adopted in 2004. In 2010, special considerations included the statement of remuneration issued by the Financial Supervisory Authority, concerning management, in particular. Established in late 2010, Department M of the Mortgage Society of Finland's pension foundation will affect the incentive and benefits plan by offering the opportunity of using rewards for improving pension security. Department M will be taken into consideration when the Board of Directors confirms the content and principles of the plan for 2011.

Competence, management and workplace development are integral to the Mortgage Society of Finland Group's business strategy. During the financial year, each employee attended at least one personal performance and development discussion. In this context, it should be noted that the Mortgage Society is a small organisation where senior management and each employee's closest supervisors continually take part in daily management. In collaboration with Mehiläinen Occupational Health Care, the Mortgage Society carried out an occupational well-being survey in 2010. The previous survey had been carried out in 2008. The results of the latest survey show that, compared with a control group consisting of members of an expert organisation, the Mortgage Society of Finland Group's employees are satisfied with their working conditions.

They see the incentive and benefits plan as particularly encouraging. The results also show that most employees feel rushed at times because of an occasional backlog of work.

The Mortgage Society of Finland Group has made significant investments in training in recent years. All employees in sales and customer service have completed the licensed real estate broker diploma (LKV in Finnish). During the financial year, the Mortgage Society of Finland Group focused especially on further developing its internal guidelines and improving common procedures. From the employees, this required a proactive approach to training and independent study. Consistent and determined competence development has created a strong foundation for product-orientated specialisation, which ensures that all employees can use their strengths and core competencies in customer service.

During the financial year, employees have worked in a diligent and determined manner to achieve their goals, using their knowledge and skills to the full.

Regardless of the type of employment, all employees are covered by statutory occupational healthcare and a wide selection of additional services offered by Mehiläinen Occupational Health Care. In addition, regardless of position or type of employment, all employees have access to sport vouchers and holiday homes.

Statutory pension insurance for the personnel has been set up with Tapiola Mutual Pension Insurance Company (Tapiola Pension). Additional benefits are managed by Department A of the Mortgage Society of Finland's pension foundation, which has a closed sphere of operation and no uncovered liabilities. A total of eight employees (including the managing director) are covered by these additional benefits.

Helsinki 28 February 2011

Board of Directors

CONSOLIDATED INCOME STATEMENT 1 JANUARY 2010 – 31 DECEMBER 2010, IFRS

EUR 1,000	Note	2010	2009
Interest income	1	14,849.4	20,454.6
Interest expenses	1	-14,351.8	-20,899.8
NET INTEREST INCOME		497.6	-445.3
Fee and commission income	2	1,770.4	1,612.6
Fee and commission expenses	2	-8.1	-14.7
Net income from financial assets available for sale	3	-27.4	1,689.0
Net income from investment properties	4	5,620.7	5,649.0
Other operating income	5	26.7	29.9
Administrative expenses			
Personnel costs			
Salaries and remuneration		-2,076.0	-2,134.0
Indirect personnel costs			
Pension costs		-164.1	267.6
Other indirect personnel costs		-48.7	-87.9
Other administrative expenses		-2,794.1	-2,511.8
Total administrative expenses		-5,082.9	-4,466.0
Depreciation and impairment losses on tangible and intangible assets	7	-268.7	-247.9
Other operating expenses	6	-241.0	-363.2
Impairment losses on loans and other commitments	8	-41.5	-433.6
OPERATING PROFIT		2,245.7	3,009.7
Income taxes	9	-630.7	-911.3
PROFIT FROM OPERATIONS AFTER TAXES		1,615.0	2,098.4
PROFIT FOR THE PERIOD		1,615.0	2,098.4

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT 1 JANUARY 2010 – 31 DECEMBER 2010, IFRS

EUR 1,000	Liitetieto	2010	2009
Profit for the period		1,615.0	2,098.4
Other comprehensive profit items			
Reservation of profits for the public good and other adjustments		-0.5	
Change in fair value reserve			
Hedging of cash flows		2,230.7	-941.1
Financial assets available for sale		7.6	150.4
Total other comprehensive profit items		2,237.9	-790.6
COMPREHENSIVE PROFIT FOR THE PERIOD		3,852.9	1,307.8

CONSOLIDATED BALANCE SHEET ON 31 DECEMBER 2010

EUR 1,000	Liitetieto	2010	2009
ASSETS			
Cash	11, 12, 30	29.6	54.2
Notes and bonds eligible for refinancing with central banks			
Other		14,597.9	7,644.5
Receivables from financial institutions			
Repayable on demand	12, 13, 28, 30	4,707.3	3,508.6
Other	12, 13, 28, 30	21,515.1	2,600.2
		26,222.3	6,108.8
Receivables from the public and public sector entities			
Other than those repayable on demand	14, 28, 30	520,448.7	515,016.1
Notes and bonds			
From public sector entities	15, 28, 30	3,999.5	
From others	15, 28, 30	17,955.1	83,404.8
		21,954.6	83,404.8
Shares and holdings	16, 30	112.8	7,062.1
Derivative financial instruments	17, 30	627.0	1,001.9
Intangible assets			
Other long-term expenditure	18, 20	658.0	826.9
Tangible assets			
Investment properties and shares and holdings in investment properties	19, 20, 44	61,255.2	67,187.5
Other properties and shares and holdings in real estate corporations		875.2	881.4
Other tangible assets	19, 20, 44	333.5	340.2
		62,463.9	68,409.0
Other assets	21, 33	10,867.4	10,139.4
Accrued income and advances paid	22	1,656.6	1,709.6
Deferred tax receivables	23	1,196.5	2,025.2
TOTAL ASSETS		660,835.2	703,402.5

1 000 €	Note	2010	2009
EUR 1,000			
LIABILITIES AND EQUITY			
LIABILITIES			
Other than those repayable on demand	28, 30	99,030.2	103,516.7
Deposits and borrowing from the public and public sector entities			
Deposits			
Repayable on demand	28, 30	102,524.3	89,482.0
Other	28, 30	27,997.0	26,320.4
		130,521.3	115,802.4
Other borrowing			
Other than those repayable on demand	28, 30	78,947.2	101,808.8
		209,468.6	217,611.2
Debt securities issued to the public			
Bonds	24, 28, 30	215,838.3	242,767.4
Other	24, 28, 30	38,936.3	39,358.6
		254,774.6	282,126.1
Derivative financial instruments	30	5,145.0	8,534.3
Other liabilities			
Other liabilities	25	5,559.4	6,303.5
Deferred income and advances received	26	4,070.4	5,710.1
Subordinated liabilities			
Other	27, 28, 30	1,360.0	1,700.0
Deferred tax liabilities	23	8,192.6	8,519.1
EQUITY			
Basic capital	32, 44	5,000.0	5,000.0
Revaluation reserve	44	4,698.2	5,137.8
Other restricted reserves			
Reserve fund	44	22,689.8	22,589.8
Fair value reserve			
From cash flow hedging	44	-3,343.3	-5,574.0
From fair value recognition	44	57.0	49.4
Unrestricted reserves			
Other reserves	44	21,173.5	18,923.5
Retained earnings	44	21,344.1	21,156.6
Profit for the period	44	1,615.0	2,098.4
		73,234.4	69,381.5
TOTAL LIABILITIES AND EQUITY		660,835.2	703,402.5

CHANGES IN EQUITY 1 JANUARY TO 31 DECEMBER 2010

EUR 1,000	Basic capital	Revaluation reserve	Reserve fund	Fair value reserve	Other reserves	Retained earnings	Total
Equity on 1 January 2009	5,000.0	5,810.4	22,566.3	-4,734.0	18,900.0	20,531.0	68,073.7
Profit for the period						2,098.4	2,098.4
Other comprehensive profit items							
Decision of the Annual General Meeting on the use of profits			23.5		23.5	-47.0	0.0
Hedging of cash flow							
Amount recognised in equity				-6,190.5			-6,190.5
Amount transferred to the income statement				4,918.8			4,918.8
Change in deferred taxes				330.6			330.6
Financial assets available for sale							
Change in fair value				1,892.2			1,892.2
Amount transferred to the income statement				-1,689.0			-1,689.0
Change in deferred taxes				-52.9			-52.9
Investment properties, revaluation reserve							
Amount transferred to retained earnings		-908.9				908.9	0.0
Change in deferred taxes		236.3				-236.3	0.0
Total other comprehensive profit items		-672.6	23.5	-790.6	23.5	625.6	-790.6
Equity on 31 December 2009	5,000.0	5,137.8	22,589.8	-5,524.6	18,923.5	23,255.0	69,381.5
EUR 1,000	Basic capital	Revaluation reserve	Reserve fund	Fair value reserve	Other reserves	Retained earnings	Total
Equity on 1 January 2009	5,000.0	5,137.8	22,589.8	-5,524.6	18,923.5	23,255.0	69,381.5
Profit for the period						1,615.0	1,615.0
Other comprehensive profit items							
Adjustment made in retained earnings						-0.5	-0.5
Decision of the Annual General Meeting on the use of profits			100.0		2,250.0	-2,350.0	0.0
Hedging of cash flow							
Amount recognised in equity				-3,021.3			-3,021.3
Amount recognised in equity				6,035.8			6,035.8
Amount recognised in equity				-783.8			-783.8
Financial assets available for sale							
Change in fair value				-17.1			-17.1
Amount transferred to the income statement				27.4			27.4
Change in deferred taxes				-2.7			-2.7
Investment properties, revaluation reserve							
Amount transferred to retained earnings		-594.0				594.0	0.0
Change in deferred taxes		154.4				-154.4	0.0
Total other comprehensive profit items		-439.5	100.0	2,238.3	2,250.0	-1,910.9	2,237.9
Equity on 31 December 2010	5,000.0	4,698.2	22,689.8	-3,286.3	21,173.5	22,959.1	73,234.4

CONSOLIDATED CASH FLOW STATEMENT 1 JANUARY 2010 – 31 DECEMBER 2010

EUR 1,000	2010	2009
Cash flow from operating activities		
Interest received	15,063.7	21,778.8
Interest paid	-15,774.6	-25,318.6
Commission income	1,721.2	1,581.2
Commission expenses	-8.1	-14.7
Net income from financial assets available for sale	-27.4	1,689.0
Net income from investment properties	5,549.8	5,420.6
Other operating income	26.7	29.9
Administrative expenses	-6,678.3	-4,808.5
Other operating expenses	-241.0	-363.2
Credit and guarantee losses	-41.5	-433.6
Income taxes	-766.6	-457.7
Total net cash flow from operating activities	-1,176.1	-897.0
Increase (-)/decrease (+) in operating assets		
Receivables from customers (lending)	-5,617.2	-7,666.0
Investment properties	6,090.2	-9,904.2
Total increase (-)/decrease (+) in operating assets	473.1	-17,570.2
Increase (+)/decrease (-) in operating liabilities		
Liabilities to the public and public sector entities (deposits)	14,719.0	11,903.5
Total increase (+)/decrease (-) in operating liabilities	14,719.0	11,903.5
NET CASH FLOWS ACCRUED FROM OPERATING ACTIVITIES	14,016.0	-6,563.7
Cash flows from investments		
Increase in fixed assets	-86.9	-434.1
Increase (-)/decrease (+) in equity investments		-1.3
Dividends received		
Net income from equity investments		
NET CASH FLOWS ACCRUED FROM INVESTMENTS	-86.9	-435.3

EUR 1,000	2010	2009
Cash flows from financing		
Bank loans, new withdrawals	39,227.0	
Bank loans, repayments	-43,713.5	-39,601.6
Increase (+)/decrease (-) in other liabilities	-23,108.3	18,976.6
Bonds, new issues	75,162.9	49,982.2
Bonds, repayments	-102,092.1	
Certificates of deposit, new issues	73,779.6	75,985.7
Certificates of deposit, repayments	-74,201.9	-100,517.3
Subordinated liabilities, repayments	-340.0	
NET CASH FLOWS ACCRUED FROM FINANCING	-55,286.2	4,825.6
NET CHANGE IN CASH AND CASH EQUIVALENTS	-41,357.2	-2,173.4
Cash and cash equivalents at the beginning of the period	104,161.5	106,334.9
Cash and cash equivalents at the end of the period	62,804.3	104,161.5
CHANGE IN CASH AND CASH EQUIVALENTS	-41,357.2	-2,173.4

Accounting policies

GENERAL INFORMATION

The Mortgage Society of Finland (hereafter also "the Mortgage Society") is an independent credit institution specialising in home financing and housing, with its debtors as its members. The specific purpose of the Mortgage Society of Finland is to grant long-term loans from assets largely acquired through long-term loans to individuals and communities mainly for housing purposes. These loans are usually granted against a mortgage or other security. Its subsidiary, Suomen AsuntoHypoPankki, operates in deposit banking, offering its customers deposit accounts, Visa cards and trustee services related to retail banking. The Mortgage Society of Finland Group operates entirely in euros. Its operations are monitored by the Financial Supervisory Authority.

The Mortgage Society of Finland Group's financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) and SIC and IFRIC interpretations. The international financial reporting standards refer to standards and the related interpretations that have been approved in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards.

The consolidated financial statements include the Mortgage Society of Finland Group's and the parent company's income statements, balance sheet and notes as well as the Group's comprehensive income, cash flow statement and a statement on changes in equity. In addition, the financial statements include an annual report.

The information related to capital adequacy has been prepared and presented in accordance with the FIN-FSA standard 4.5. The information is included partly in the annual report and partly in the notes to the consolidated financial statements.

NEW STANDARDS AND INTERPRETATIONS

No IFRS standards or SIC and IFRIC interpretations adopted or amended in 2010 concerned the accounting principles used in preparing these financial statements.

The following standards or draft standards, which will possibly be adopted in 2013, may affect the Mortgage Society of Finland Group's future financial statements: IFRS 9 Financial Assets: classification and measurement; ED

Fi-nancial Instruments: Amortised cost and Impairment; ED Financial Instruments: Hedge Accounting; ED Leases and ED of proposed amendments to IAS 19: Employee Benefits.

GROUP

The Mortgage Society of Finland Group's consolidated financial statements cover the Mortgage Society of Finland (hereafter also "the Mortgage Society"), Suomen AsuntoHypoPankki (hereafter "AsuntoHypoPankki") and Bostadsak-tiebolaget Taos (hereafter "Taos"), of which the Group owns 61.9 percent. The financial statements of AsuntoHypoPankki and Taos have been consolidated using the acquisition cost method, eliminating mutual business transactions included in the individual financial statements.

The housing company Asunto Oy Vanhaväylä 17 (of which the Mortgage Society of Finland Group owns 100 percent), as well as housing companies that are affiliate companies, have been accounted for in the same manner as other property investments and included in tangible assets. These companies have a minor effect on the Group's result and financial position. The accounting principles applied to property investments are explained later in this document.

FINANCIAL INSTRUMENTS

Financial assets

Receivables from credit institutions, the public and public-sector entities are classified under "Loans and other receivables," recognised originally at fair value and later at the amortised acquisition cost. At least once every six months the company evaluates whether there is objective proof that the value of a single receivable or a group of receivables has decreased. If the receivable amount, which is based on an estimate of future cash flows, is evaluated to be lower than the book value, the receivable will be accounted for as an impairment loss. Impairment losses on receivables, as well as any returns of recognised impairment losses, are presented under "Impairment losses on loans and other commitments."

Notes and bonds, as well as equity and fund investments (excluding shares of subsidiaries), are classified under "Financial assets available for sale" and recognised at fair value. Unrealised changes in fair value have been recognised,

after adjustment for deferred tax liabilities, in the fair value reserve included in equity. Valuation differences recognised in the fair value reserve in conjunction with sales are recognised in the income statement. Equity instruments for which no market price is quoted and the fair value of which cannot be reliably determined are recognised at acquisition cost. At least once every six months the company evaluates whether there is objective proof that the value of an investment has decreased. If the value of the investment has decreased below the acquisition cost, and the impairment is significant or long-term in nature, the investment will be accounted for as an impairment loss through profit or loss. Dividend income based on equity instruments is recognised once the dividend has become vested.

The purchases and sales of certificates of claim and shares are recognised on the day of purchase or sale.

Financial assets

Cash and cash equivalents shown in the cash flow statement consist of cash, receivables from credit institutions, certificates of claim and fixed-income fund investments included in "Shares and holdings."

Financial liabilities

The Mortgage Society of Finland Group's liabilities are classified under "Other liabilities", recognised originally at fair value and later at the amortised acquisition cost. If the principal paid or received for a liability is more or less than the nominal value of the liability, the liability is recognised at the amount received. The difference between the nominal value and the amount originally recognised in the balance sheet is recorded as amortisation by using the effective interest method over the term of the loan. It will be recognised as either an expense or a deduction from an expense 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 recorded as amortisation by using the effective interest method over the term of the liability.

Bonds issued by the Mortgage Society that are tied to the performance of certain share indices or currencies in terms of return to investors include what are known as embedded derivatives (share index and currency options). Corres-

pondingly, the Mortgage Society has protected its position with separate derivative financial instruments. As a whole, this arrangement is equivalent to standard floating-rate or fixed-rate liabilities. These embedded derivatives related to liabilities and the corresponding separate option contracts are recognised at market value through profit or loss. In the balance sheet, they are recognised in "Assets and liabilities" under "Derivative financial instruments."

Liabilities are recognised in, or removed from, the balance sheet on the settlement date.

Derivative financial instruments

Hedge accounting is applied to derivative financial instruments other than those described above. The purpose of hedge accounting is to allocate the impact of the cash flow related to hedging objects and hedging instruments to the same accounting period. The hedge accounting model applied by the Mortgage Society is cash flow hedging. The hedging instruments are interest derivative instruments that are used to change the variable cash flows related to the hedging object to fixed-rate cash flows. Interest payments against floating-rate liabilities are determined as hedging objects.

The effectiveness of the hedging is verified in two stages. At the commencement of the hedge and during the hedge, the hedging is assumed to be sufficiently effective on the day it is set up and thereafter if the principals, due dates, revaluation dates, interest periods and reference rates of the contracts related to the hedged liability or group of similar liabilities and the hedging instrument or a group of similar hedging instruments are identical or very similar. In subsequent verifications, which are carried out at least twice a year, the effectiveness of individual hedging instruments or a group of them and the related hedged liabilities or a similar group is verified to be between 80 and 125 percent. The ineffective part of the profit or loss related to an individual hedging instrument or a group of them is recognised through profit or loss. If the hedging proves to be inefficient because of changed conditions, for example, the related hedge accounting is discontinued.

Derivative financial instruments are recognised at fair value. The fair values are recognised in "Receivables and liabilities" in the balance sheet, and the counterpart entries are recognised, after adjustment for deferred taxes, in the fair value reserve included in equity. The unrealised changes in their fair value are included in the comprehensive income statement. Interest income and interest expenses related to interest rate swaps are recognised at their net amounts in income expenses, and deferred interest is included in "Prepayments and accrued income" as well as "Accruals."

Accounting principles applied to determining the fair value of financial instruments

The fair value of equity investments is based on the bid quote at Nasdaq OMX Helsinki at the time of assessment. The fair value of fund investments is based on the value confirmed by the fund company.

The fair values of derivative financial instruments, most of which consist of traditional interest rate swaps, as well as fixed-rate liabilities and receivables, are calculated by discounting future cash flows to the present by using market rates. A margin based on the counterpart's credit risk has been added to market rates (Euribor and swap rates). Widely adopted option valuation models have been applied to the market valuation of option contracts. The input data (for example, the values and volatilities of share indices and currencies) are based on market values. In practice, the market values are received from bank counterparts.

The book value of floating-rate and short-term (maturity less than one year) balance sheet items is considered to be equal to their fair value.

INTANGIBLE ASSETS

The costs recognised in "Intangible assets" consist of IT projects and start-up costs related to Visa partnerships. On the balance sheet, intangible assets are recognised in acquisition costs less accrued depreciation and possible impairment losses. The useful life of assets is limited, seven years at the most. Depreciations are started when the asset is ready for use, and the depreciation is calculated as a straight-line depreciation. In the income statement, depreciations are recognised under "Depreciation and impairment losses on tangible and intangible assets."

TANGIBLE ASSETS

Property investments

On the balance sheet, property investments are divided into investment properties and other properties. Investment properties mainly consist of land areas intended to be used as residential plots, as well as shares in housing companies and investments in shares in housing companies under construction. Other properties, and shares in real estate companies refer to the part of the property that is used by the Group.

New developments related to co-operation projects are recognised as income after completion in accordance with IFRIC 15.

Investment properties and other properties are recognised in accordance with the acquisition cost model. In the consolidated financial statements, shares in housing companies are combined line by line according to the proportional share. Buildings are recorded as straight-line depreciations over a period of 25 years. Land areas are not recorded as depreciations.

Earlier FAS financial statements have included revaluations related to some property investments. At the time of transition to IFRS, the values included in the FAS financial statements were used as the default acquisition cost of properties in accordance with IFRS 1.17 and 1.18. Consequently, the revaluation reserve in the consolidated financial statements corresponds to FAS-based appreciation reserves for Special Purpose Vehicles.

The need for impairment on property investments is evaluated at least once a year. If an asset item is recognised on the balance sheet at a value higher than the recoverable amount, an impairment loss is recorded.

Rental income from investment properties, maintenance charges and other expenses, as well as depreciations and profits from sale, are recognised in "Net profits from investment properties." Costs and depreciations related to properties in the Mortgage Society of Finland Group's own use are recognised in "Other operating expenses."

The Mortgage Society of Finland has long-term leases with housing companies on residential plots. Once a year, the housing company has the opportunity to purchase each flat's share of the plot. The purchase price is the acquisition price adjusted for the increase in the cost of living.

Some of the home purchases are based on the Hypo Joint Ownership concept. In practice, this means that the Mortgage Society and its customer (private individual) jointly own the home, and the customer pays rent on the share owned by the Mortgage Society. The partial ownership agreement enables the customer to purchase the entire home or sell his or her share to the Mortgage Society within four years. The purchase price is usually the original acquisition price less compensation based on wear and tear. The notes to the consolidated financial statements present a sum that describes the amount the Mortgage Society would need to use to purchase the partially owned homes if each owner decided to sell his or her share to the Mortgage Society. If the agreement is regarded as a loss-making contract, in other words, if it is likely that the Mortgage Society will have to purchase the shares and this results in a loss, a provision will be made in accordance with IAS 37.

The fair values of property investments are included in the notes to the consolidated financial statements. The fair values of flats have mainly been calculated based on Statistic Finland's statistics on the prices of dwellings in the fourth quarter of 2010, 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 a plot is its acquisition cost adjusted for the increase in the cost of living, which equals the plot's acquisition price.

Other tangible assets

Other tangible assets include machines, equipment and works of art. These are recognised according to the acquisition cost model. Machines and equipment are recorded systematically as costs during the useful life of the asset, applying the reducing balance method of depreciation. The depreciation percentage is either 25 or 10. Works of art are not amortised systematically.

VOLUNTARY PENSION BENEFITS

Statutory pension insurance for the Mortgage Society's personnel has been set up with Tapiola Mutual Pension Insurance Company (Tapiola Pension). Additional pension cover for the Mortgage Society's employees, which is classified as a defined benefit plan, is arranged from Department A of the Mortgage Society of Finland's pension foundation. In the consolidated financial statements, the assets of Department A of the pension foundation are recognised at fair value. Its obligations are recognised at present value based on calculation assumptions made at the time of assessment. At the time of transition to IFRS (1 January 2006), all accumulated actuarial gains and losses were recognised on the balance sheet in accordance with IFRS 1.20. The difference between assets and obligations at the time of transition was recognised (after adjustment for deferred tax liabilities) in "Other assets" and in "Profit brought forward." After that, the effects of the pension foundations that are based on actuarial calculations are recorded by adjusting the item "Pension expenses" in the income statement and, correspondingly, "Other assets" on the balance sheet. Any surplus possibly returned by the pension foundation to the parent company will not affect the Mortgage Society of Finland Group's overall result, but it will improve the Group's capital adequacy ratio.

A new department (Department M) was established in the pension foundation at the end of 2010. This offers employees the opportunity of using rewards for improving pension security. Department M is regarded as a contribution system. Transfers from Department A of the pension foundation to Department M increase the Group's pension expenses.

TAXES

Taxes in the financial year

Taxes in the financial year 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 recognised through profit or loss.

Deferred tax receivables and liabilities

The credit loss provision included in the parent company's FAS financial statements, the surplus from the pension foundation, the fair value reserve based on the valuation of investments available and interest rate swaps, and the revaluation reserve based on revaluations related to property investments are recognised at values adjusted for deferred taxes on the balance sheet. The counterpart entries are recognised in deferred tax receivables and liabilities. The credit loss provision included in the FAS financial statement is also recognised in deferred tax liabilities in the consolidated financial statements.

RECOGNITION PRINCIPLES

As a rule, fee and commission income is earned when a service or a specific measure has been performed. Such income is recorded as non-recurring income. Entry fees are also recognised in fee and commission income. Substantial fee and commission income and expenses that are regarded as an integral part of the effective interest rate for a financial instrument are allocated as net interest income or expenses as part of the instrument's effective interest rate.

SEGMENT REPORTING

After a comprehensive examination, the Board of Directors has decided that the Mortgage Society only has one segment: retail banking. The Board is the Chief Operating Decision Maker (CODM) at the Mortgage Society.

NOTES TO THE CONSOLIDATED INCOME STATEMENT 1 JANUARY TO 31 DECEMBER 2010

Euro 1,000 (unless otherwise specified)

1 BREAKDOWN OF INTEREST INCOME AND EXPENSES BY BALANCE SHEET ITEM

	2010	2009
Receivables valued at allocated acquisition cost		
Receivables from financial institutions	56.7	97.3
Receivables from the public and public sector entities	13,616.9	18,487.5
Total	13,673.6	18,584.8
Notes and bonds	1,107.3	1,728.4
Other interest income	68.5	141.4
Total interest income	14,849.4	20,454.6
Liabilities valued at allocated acquisition cost		
Liabilities to financial institutions	-1,803.7	-4,625.3
Liabilities to the public and public sector entities	-2,668.9	-5,950.4
Debt securities issued to the public	-3,818.2	-5,345.9
Subordinated liabilities	-24.9	-58.8
Total	-8,315.6	-15,980.4
Derivative contracts	-6,035.8	-4,918.8
Other interest expenses	-0.4	-0.7
Total interest expenses	-14,351.8	-20,899.8

2 COMMISSION INCOME AND EXPENSES

	2010	2009
From lending and deposits	827.9	837.6
From legal assignments	87.5	83.8
From residential property management	460.7	435.8
From other operations	394.3	255.5
Total commission income	1,770.4	1,612.6
Other commission expenses	-8.1	-14.7
Total commission expenses	-8.1	-14.7

3 NET INCOME FROM FINANCIAL ASSETS AVAILABLE FOR SALE

	2010	2009
Sales gains from notes and bonds	-0.1	70.7
Sales gains from shares and fund units	-27.3	1,618.2
	-27.4	1,689.0

4 NET INCOME FROM INVESTMENT PROPERTIES

	2010	2009
Rental income	4,214.1	3,963.5
Capital gains (losses)	2,096.5	2,654.9
Other income	214.4	219.2
Maintenance charges and other maintenance costs paid		
From investment properties that have accrued rental income during the period	-818.2	-1,076.4
From investment properties that did not accrue rental income during the period		-25.3
Other expenses	-14.2	-13.6
Impairment losses		
Planned depreciation	-71.9	-73.4
Total	5,620.7	5,649.0

5 OTHER OPERATING INCOME

Other income	26.8	29.9
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6 OTHER OPERATING EXPENSES

Rental expenses	-9.1	-43.0
Expenses from properties in own use	-38.4	-78.2
Other expenses	-193.5	-242.0
Total	-241.0	-363.2

7 DEPRECIATION AND IMPAIRMENT LOSSES ON TANGIBLE AND INTANGIBLE ASSETS

Planned depreciation	-268.7	-247.9
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8 IMPAIRMENT LOSSES ON LOANS AND OTHER COMMITMENTS AND OTHER FINANCIAL ASSETS

From receivables from the public and public sector entities		
Agreement-specific impairment losses	-306.9	-487.7
Decreases	265.4	54.1
Total	-41.5	-433.6

9 INCOME TAXES

	2010	2009
Breakdown of taxes in the income statement		
Tax expense based on taxable income for the financial period	-760.6	-852.2
Change in deferred taxes	129.8	-60.6
Taxes from previous periods	0.1	1.5
Taxed in the income statement	-630.7	-911.3
Tax reconciliation calculation		
Earnings before taxes	2,245.7	3,009.7
Tax-free income	-305.0	-335.9
Non-deductible expenses	45.5	302.2
Total	1,986.2	2,976.0
Taxes calculated using the tax rate of 26%	-516.4	-773.8
Taxes from previous periods	0.1	1.5
Other items	-114.4	-139.0
Taxed in the income statement	-630.7	-911.3

10 INFORMATION ON PRODUCT GROUPS AND GEOGRAPHICAL MARKET AREAS

The Mortgage Society of Finland Group has only one segment, retail banking. By product group, the main income of the Group is made up of lending and deposits and other housing products and services. Lending and deposits, including other housing products and services, are considered to form one business area due to the special characteristics of the clientele and the products offered by the Mortgage Society of Finland (partial ownership, reverse mortgage and housing trade, residential property management). Residential property management covers, among other things, legal and administrative assignments related to plot trade and rental. The Group's operating area is Finland. Other operations mainly consist of marketing and sales operations for Visa charge cards issued and granted by Luottokunta cooperative and services provided to a company outside the Group.

2010	Total amount of income	Operating profit	Total assets	Total liabilities	Personnel
Lending and deposits and other housing products and services	7,499.9	2,090.0	660,680.6	587,600.8	27
Other operations	388.1	155.8	154.6		
	7,888.0	2,245.7	660,835.2	587,600.8	27

2009	Total amount of income	Operating profit	Total assets	Total liabilities	Personnel
Lending and deposits and other housing products and services	8,299.0	3,003.1	703,215.5	634,021.0	23
Other operations	236.2	6.6	187.0		
	8,535.2	3,009.7	703,402.5	634,021.0	23

11 LIQUID ASSETS

	2010	2009
Cash	29.6	54.2

12 CASH AND CASH EQUIVALENTS ACCORDING TO THE CASH FLOW STATEMENT

	2010	2009
Liquid assets	29.6	54.2
Notes and bonds eligible for refinancing with central banks	14,597.9	7,644.5
Receivables from financial institutions	26,222.3	6,108.8
Notes and bonds	21,954.6	83,404.8
Shares and holdings, fixed income fund units		6,949.2
	62,804.3	104,161.5

13 RECEIVABLES FROM FINANCIAL INSTITUTIONS (LOANS AND OTHER RECEIVABLES)

	2010		2009	
	Repayable on demand	Other than those repayable on demand	Repayable on demand	Other than those repayable on demand
From the central bank		2,515.1	2,515.1	2,600.2
From domestic financial institutions	4,678.9	19,000.0	23,678.9	3,445.2
From foreign financial institutions	28.4		28.4	63.5
Total	4,707.3	21,515.1	26,222.3	6,108.8

Receivables from financial institutions repayable on demand 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 variable interest rate minimum reserve deposit based on the reserve base. There are restrictions for its use as part of liquidity.

14 RECEIVABLES FROM THE PUBLIC AND PUBLIC SECTOR ENTITIES (LOANS AND OTHER RECEIVABLES)

	2010	2009
Companies and housing corporations	158,893.5	145,629.2
Households	357,381.4	367,082.8
Non-profit organisations serving households	3,275.8	1,912.7
Foreign countries	898.0	391.4
Total	520,448.7	515,016.1

Subordinated liabilities	753.8	1,077.3
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The receivables from the public and public sector entities consist of long-term lending to various counterparties.

Impairment losses on receivables recognised during the period	
Impairment losses at the beginning of the year	576.7
Receivable-specific impairment losses recognised during the period	306.9
Receivable-specific impairment losses reversed during the period	-436.8
Impairment losses at the end of the year	446.8

No group-specific impairment losses have been recognised.

15 NOTES AND BONDS (FINANCIAL ASSETS AVAILABLE FOR SALE)

	2010			2009		
	Publicly quoted	Other	Total	Publicly quoted	Other	Total
Issued by public sector entities						
Available for sale						
Municipal papers		3,999.5	3,999.5			
Other than those issued by public sector entities						
Available for sale						
Certificates of deposit					14,995.6	14,995.6
Commercial papers		15,974.1	15,974.1		49,688.5	49,688.5
Bonds	16,578.9		16,578.9	26,365.2		26,365.2
Total notes and bonds	16,578.9	19,973.6	36,552.4	26,365.2	64,684.1	91,049.3
Subordinated liabilities						8,198.8
Receivables eligible for refinancing with central banks			14,597.9			7,644.5

Notes and bonds are investments in various credit counterparties with a remaining maturity of three months – four years.

16 SHARES AND HOLDINGS (FINANCIAL ASSETS AVAILABLE FOR SALE)

	2010			2009		
	Publicly quoted	Other	Total	Publicly quoted	Other	Total
Shares and holdings, available for sale		112.83	112.83		7,062.06	7,062.06
Of which at acquisition cost		112.83	112.83		112.83	112.83
Of which in financial institutions		108.50	108.50		108.50	108.50

17 DERIVATIVE CONTRACTS

	2010		2009	
	Assets	Book value Liabilities	Assets	Book value Liabilities
Hedging derivatives				
Interest rate swaps, cash flow hedging calculation model, fair value	76.8	4,594.7	48.6	7,581.0
Interest rate swaps, index-linked, fair value	550.2		953.3	
Linked derivatives of bonds (object of hedging), fair value		550.2		953.3
Interest rate swaps, cash flow hedging calculation model, interest carried forward	627.0	5,145.0	1,001.9	8,534.3
Interest rate swaps, cash flow hedging calculation model, interest carried forward	5.0	1,270.6	24.2	1,609.7
Total	632.0	6,415.6	1,026.1	10,144.0

2010

Remaining maturity	Less than one year	1 to 5 years	5 to 10 years	Total
Nominal values of the underlying instruments	156 612,3	149 720,0	16 000,0	322 332,3
Fair value, assets	14,1	612,9		627,0
Fair value, liabilities	2 077,5	1 350,3	1 717,1	5 145,0

2009

Remaining maturity	Less than one year	1 to 5 years	5 to 10 years	Total
Nominal values of the underlying instruments	61 000,0	253 920,0	17 000,0	331 920,0
Fair value, assets		1 001,9		1 001,9
Fair value, liabilities	221,3	6 858,3	1 454,7	8 534,3

18 INTANGIBLE ASSETS

	2010	2009
IT programs and projects	611.9	748.5
Other intangible assets	46.1	78.4
	658.0	826.9
Amount of agreement-based commitments concerning acquisition of intangible assets	69.0	69.9

19 TANGIBLE ASSETS

	2010	2009
Investment properties and shares in investment properties, balance sheet value		
Land and water areas	36,425.5	40,089.4
Buildings	675.3	711.0
Shares and holdings in real estate corporations	24,111.2	26,379.1
Shares and holdings in real estate corporations under construction	43.1	7.9
Total balance sheet value	61,255.2	67,187.5

Total fair value of investment properties of which share based on assessments of an external qualified valuer	73,432.4	78,667.7
	6,354.7	8,220.3

Non-cancellable plot lease agreements

Rental receivables within one year	0.00	1,620,803.64
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The rental income is only calculated for one year ahead, as the future redemptions of the plot holdings of housing companies are not yet known.

Agreement-based obligations of investment properties

Potential redemptions of partially owned and completing housing units	2,869.3	9,742.8
Liabilities related to construction	2,898.9	2,898.9
Total	5,768.3	12,641.7

Agreement-based obligations of investment properties are included in off-balance sheet commitments presented in note 36.

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

Other properties and shares in real estate corporations, balance sheet value

In own use		
Land and water areas	758.6	758.6
Buildings	116.7	122.8
Total balance sheet value	875.2	881.4

Total fair value of other properties	2,291,032.62	2,261,084.58
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Obligations related to sites under construction

Unpaid purchase prices of sites under construction	66.8	0.0
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20 CHANGES IN INTANGIBLE AND TANGIBLE ASSETS DURING THE FINANCIAL PERIOD

	Intangible assets	Investment properties and shares in investment properties	Other properties and shares in properties	Other tangible assets	Total tangible
Acquisition cost on 1 January 2010	1,138.2	61,155.1	312.2	1,976.1	63,443.4
Increases, new acquisitions	.	3,051.0	.	125.9	3,176.9
Decreases	.	-8,317.5	.	-39.0	-8,356.5
Acquisition cost on 31 December 2010	1,138.2	55,888.6	312.2	2,063.0	58,263.8
Accumulated depreciation and impairment losses on 1 January 2010	311.2	310.2	31.4	1,636.0	1,977.6
Depreciation for the period	169.0	71.9	6.2	93.6	171.6
Impairment losses for the period					
Accumulated depreciation and impairment losses on 31 December 2010	480.2	382.1	37.6	1,729.6	2,149.3
Revaluation reserve on 1 January 2010		6,342.7	600.6		6,943.3
Adjustments to the revaluation reserve for the period		-594.0			-594.0
Book value on 31 December 2010	658.0	61,255.2	875.2	333.5	62,463.9
Acquisition cost on 1 January 2009	703.0	54,793.3	312.2	1,977.3	57,082.7
Increases, new acquisitions	435.2	16,157.2	.	60.5	16,217.7
Increases, capitalisation realised later	.				
Decreases	.	-9,795.4		-61.6	-9,857.1
Transfers between items					
Acquisition cost on 31 December 2009	1,138.2	61,155.1	312.2	1,976.1	63,443.4
Accumulated depreciation and impairment losses on 1 January 2009	148.9	236.9	25.3	1,556.6	1,818.7
Depreciation for the period	162.4	73.4	6.2	79.4	158.9
Impairment losses for the period					
Accumulated depreciation and impairment losses on 31 December 2009	311.2	310.2	31.4	1,636.0	1,977.6
Revaluation reserve on 1 January 2009		7,251.6	600.6		7,852.2
Adjustments to the revaluation reserve for the period		-908.9			-908.9
Book value on 31 December 2009	826.9	67,187.5	881.4	340.2	68,409.0

21 OTHER ASSETS

	2010	2009
Defined benefit pension plans/excess margin of the Pension Foundation	7,674.5	8,552.0
Other receivables	3,192.9	1,587.4
Total	10,867.4	10,139.4

More detailed information on defined benefit pension plans is presented in note 34.

22 DEFERRED INCOME AND ADVANCES PAID

	2010	2009
Interest receivables	1,381.8	1,596.1
Tax receivable based on taxes for the period	66.8	32.6
Other deferred income	208.0	80.9
Total	1,656.6	1,709.6

23 DEFERRED TAX RECEIVABLES AND LIABILITIES

	Tax receivable in 2010		Tax liability in 2010	
	Included in the financial statements of separate companies	Total Group	Included in the financial statements of separate companies	Based on consolidation / Total Group
Deferred tax of the excess margin of the Pension Foundation				1,995.4 / 1,995.4
Deferred tax of the revaluation reserve of real estate investments			1,651.1	1,651.1
Deferred tax of the fair value reserve	1,196.5	1,196.5	41.9	41.9
Deferred tax of credit loss provisions			4,504.3	4,504.3
Total	1,196.5	1,196.5	6,197.2	1,995.4 / 8,192.6

	Tax receivable in 2009		Tax liability in 2010	
	Included in the financial statements of separate companies	Total Group	Included in the financial statements of separate companies	Based on consolidation / Total Group
Deferred tax of the excess margin of the Pension Foundation				2,223.5 / 2,223.5
Deferred tax of the revaluation reserve of real estate investments			1,805.5	1,805.5
Deferred tax of the fair value reserve	2,025.2	2,025.2	84.1	84.1
Deferred tax of credit loss provisions			4,405.9	4,405.9
Total	2,025.2	2,025.2	6,295.6	2,223.5 / 8,519.1

24 DEBT SECURITIES ISSUED TO THE PUBLIC

	2010		2009	
	Book value	Nominal value	Book value	Nominal value
Other than those repayable on demand				
Bonds	215,838.3	215,870.0	242,767.4	242,870.0
Certificates of deposit and commercial papers	38,936.3	39,100.0	39,358.6	39,500.0
Total	254,774.6	254,970.0	282,126.1	282,370.0

The bonds are debt obligations without collateral issued by the Mortgage Society of Finland with a maturity of at most five years and mainly with a variable interest rate.

The notes and bonds are debt obligations without collateral issued by the Mortgage Society of Finland with a maturity of at most one year.

25 OTHER LIABILITIES

	2010	2009
Other liabilities	5,559.4	6,303.5

26 DEFERRED EXPENSES AND ADVANCES RECEIVED

	2010	2009
Interest liabilities	3,089.0	4,423.4
Advance payments received	44.3	71.7
Tax liability based on taxes for the period	298.8	400.5
Other deferred expenses	638.3	814.6
Total	4,070.4	5,710.1

27 SUBORDINATED LIABILITIES

	2010		2009	
	Balance sheet value	Nominal value	Balance sheet value	Nominal value
Other	1,360.0	1,360.0	1,700.0	1,700.0

This is a debenture loan 2/2004 issued by the Mortgage Society of Finland. The loan is denominated in euro and its interest rate is 12-month Euribor + 0.20%.

The loan will be repaid in five equal annual instalments starting from 27 December 2010 and its premature repayment is subject to authorisation by the Financial Supervisory Authority. In capital adequacy calculation, the liability is dealt with in its entirety as lower Tier II funds.

28 MATURITY DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES

2010	Less than 3 months	3 to 12 months	1 to 5 years	5 to 10 years	More than 10 years	Total
Receivables from financial institutions	26,222.3					26,222.3
Receivables from the public and public sector entities	10,903.0	38,136.0	137,413.0	129,475.0	204,521.7	520,448.7
Notes and bonds	16,486.0	3,487.6	16,578.9			36,552.4
Total	53,611.3	41,623.6	153,991.9	129,475.0	204,521.7	583,223.5
Liabilities to financial institutions	2,373.6	58,220.0	23,136.7	15,300.0		99,030.2
Liabilities to the public and public sector entities	108,368.2	17,604.9	63,980.5	19,514.9		209,468.6
Debt securities issued to the public	20,976.7	92,945.2	140,852.7			254,774.6
Subordinated liabilities			1,360.0			1,360.0
Total	131,718.5	168,770.1	229,329.8	34,814.9	0.0	564,633.4

2009	Less than 3 months	3 to 12 months	1 to 5 years	5 to 10 years	More than 10 years	Total
Receivables from financial institutions	6,108.8					6,108.8
Receivables from the public and public sector entities	11,600.0	28,064.0	127,569.0	130,504.0	217,279.1	515,016.1
Notes and bonds	43,472.3	39,932.5	7,644.5			91,049.3
Total	61,181.1	67,996.5	135,213.5	130,504.0	217,279.1	612,174.2
Liabilities to financial institutions	13,487.9	3,192.6	73,693.2	13,143.0		103,516.7
Liabilities to the public and public sector entities	108,035.5	25,047.8	57,853.3	26,298.0	376.6	217,611.2
Debt securities issued to the public	27,455.9	111,800.2	142,870.0			282,126.1
Subordinated liabilities			1,360.0	340.0		1,700.0
Total	148,979.3	140,040.6	275,776.5	39,781.0	376.6	604,954.0

29 BREAKDOWN OF BALANCE SHEET ITEMS TO THOSE DENOMINATED IN DOMESTIC AND FOREIGN CURRENCIES

The balance sheet items do not include items denominated in foreign currencies.

30 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Classification	Fair value determination principle	2010		2009	
		Book value	Fair value	Book value	Fair value
Liquid assets	Loans and other receivables	29.6	29.6	54.2	54.2
Receivables from financial institutions	Loans and other receivables	26,222.3	26,222.3	6,108.8	6,108.8
Receivables from the public and public sector entities	Loans and other receivables	520,448.7	524,628.4	515,016.1	520,465.0
Notes and bonds	Financial assets available for sale	36,552.4	36,552.4	91,049.3	91,049.3
Shares and holdings	Financial assets available for sale	112.8	112.8	7,062.1	7,062.1
Derivative contracts		627.0	627.0	1,001.9	1,001.9
Total		583,992.8	588,172.6	620,292.3	625,741.2
Liabilities to financial institutions	Other liabilities	99,030.2	99,030.2	103,516.7	103,516.7
Liabilities to the public and public sector entities	Other liabilities	209,468.6	209,543.8	217,611.2	217,602.6
Debt securities issued to the public	Other liabilities	254,774.6	254,763.1	282,126.1	282,114.6
Derivative contracts		5,145.0	5,145.0	8,534.3	8,534.3
Subordinated liabilities	Other liabilities	1,360.0	1,360.0	1,700.0	1,700.0
Total		569,778,377	569,842,167	613,488,302	613,468,263

The liabilities to financial institutions mainly consist of long-term promissory note loans without collateral and with variable interest rates with various counterparties.

The liabilities to the public and public sector entities consist of deposits from the public and long-term financing contracts concluded with certain individual counterparties.

Fair value determination principles:

A: Quoted price on a functioning market

B: Price that can be established, other than quoted

C: Market price that cannot be established

31 NON-ELIMINATED ITEMS INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS WHERE THE COUNTERPARTY IS A SUBSIDIARY OR ASSOCIATED COMPANY INCLUDED IN THE SAME GROUP

	2010	2009
Balance sheet		
Receivables from the public and public sector entities		
Other than those repayable on demand	3,408.5	3,004.9
Tangible assets		
Investment properties and shares in investment properties	2,317.1	759.4
Balance sheet items		
Interest income	88.9	73.7
Net income/maintenance charges from investment properties	-109.5	-111.7

32 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.

33 PENSION OBLIGATIONS

The statutory pension security of employees is arranged through pension insurance, and it is dealt with as a defined contribution plan in accordance with the IFRS accounting practice.

Voluntary supplementary pension security is arranged through the A-section of the Mortgage Society of Finland's Pension Foundation and it is dealt with as a defined benefit plan. The wealth of the A-section exceeds the amount of liabilities.

At the end of 2010, a new M-section was established in the Pension Foundation. It opens up a new possibility to accrue the pension security of personnel through performance bonuses.

The M-section is dealt with as a defined contribution plan.

	2010	2009
Defined benefit pension plans in the income statement		
Expenses based on work performance	21.6	16.6
Interest expenses	284.9	283.5
Expected return on plan assets	-643.9	-875.1
Net actuarial profit recognised during the period (-)		-35.3
Management expenses	10.7	11.2
Transfer to the M-section	130.0	
Pension costs (+)/income (-)	-196.7	-599.1

Defined benefit pension plans on the balance sheet

	2010	2009
Present value of funded obligations	5,777.7	5,830.8
Fair value of plan assets	-14,924.1	-14,463.1
Excess (-)/deficit (+) margin	-9,146.4	-8,632.3
Payments from the plan (return of excess margin)	870.0	
Non-recognised actuarial profits and losses	601.9	80.3
Net liability (+)/receivable (-)	-7,674.5	-8,552.0

	2010	2009
Change in the net liability/receivable recognised on the balance sheet		
Net liability (+)/receivable (-) on 1 January	-8,552.0	-8,117.0
Pension costs (+)/income (-)	-196.7	-599.1
Management expenses paid by the Pension Foundation to the parent company	204.2	164.0
Payments from the plan (return of excess margin)	870.0	
Net liability (+)/receivable (-) on 31 December	-7,674.5	-8,552.0

The Group's own financial instruments included in plan assets

	2010	2009
Deposits in Suomen AsuntoHypoPankki	2,907.5	263.9

Most significant actuarial assumptions, %

	2010	2009
Discount rate, %	4.75	5.00
Expected returns on assets	4.50	4.50
Future pay rise assumption	3.50	3.50
Inflation	2.00	2.00

NOTES CONCERNING THE GROUP'S COLLATERAL AND CONTINGENT LIABILITIES

34 COLLATERAL PLEDGED

There are no pledges, mortgages or other collateral pledged for own debt or on behalf of a Group company.

35 LEASING AND OTHER RENTAL LIABILITIES

	2010	2009
Minimum rents paid on the basis of leasing and other rental agreements		
Within one year		11.0
Within more than a year and at most within five years		
Total	0.00	11.0

36 OFF-BALANCE SHEET COMMITMENTS

	2010	2009
Irrevocable commitments given on behalf of a customer		
Guarantees	8,241.9	8,241.9
Granted but unclaimed loans	69,459.4	15,496.5
Potential redemptions of partially owned housing units	2,869.3	9,742.8
Total	80,570.6	33,481.2

NOTES CONCERNING THE AUDITOR'S FEE

37 AUDITOR'S FEES

	2010	2009
Fees paid to the auditor for the audit	47.4	40.2
Fees paid to the auditor for tax counselling	0.5	2.0
For other services	5.2	7.9
Total	53.1	50.1

NOTES CONCERNING THE GROUP'S PERSONNEL AND INSIDERS

38 NUMBER OF PERSONNEL

	Average number	2010 At the end of the period	Average number	2009 At the end of the period
Permanent full-time personnel	25	25	24	23
Managing director and deputy managing director	2	2	2	2
Temporary personnel	2	2		
Total	29	29	26	25

39 SALARIES AND REMUNERATION PAID TO MANAGEMENT

	2010	2009
Managing director and deputy managing director	436.5	414.3

In dismissal situations, the managing director is paid ten months' salary and the deputy managing director is paid six months' salary.

The managing director is entitled to a full pension at the age of 60; the pension liability is fully covered. Members of the Board of Directors are entitled to the basic pension security pursuant to the Employees' Pensions Act.

The managing director and the deputy managing director are included in the personnel guidance and incentive scheme of the Mortgage Society of Finland, in which the managing director has the possibility to earn the salary of at most 20 weeks and the deputy managing director has the possibility to earn the salary of at most 17 weeks. The salaries paid included the salary of 18 weeks for the managing director and the salary of 15 weeks for the deputy managing director related to the guidance and incentive scheme.

Board of Directors	2010	2009
Annual remuneration of the chairman	10.8	9.6
Annual remuneration of the vice chairman	9.2	8.2
Attendance allowances	25.0	23.2
Annual remuneration of members	36.8	31.5
Total	81.8	72.5

Supervisory Board	2010	2009
Annual remuneration of the chairman	4.1	4.0
Annual remuneration of the vice chairman	2.0	2.0
Others, annual remuneration	22.7	19.2
Attendance allowances/Auditors	2.8	2.6
Total	31.6	27.7

40 LOANS GRANTED TO MANAGEMENT AND OTHER INSIDERS

	2010	2009	Muutos
Managing director and deputy managing director	403.3	415.0	-11.7
Board of Directors	851.0	905.4	-54.4
Supervisory Board	4,995.3	3,467.5	1,527.8
Total	6,249.6	4,787.9	1,461.7

41 DEPOSITS BY THE MANAGEMENT AND OTHER INSIDERS

	2010	2009	Muutos
Managing director, deputy managing director, Board of Directors and Supervisory Board	115.1	271.6	-156.6
Pension Foundation of the Mortgage Society of Finland	2,907.5	263.9	2,643.7
Total	3,022.6	535.5	2,487.1

The loans granted to management and the deposits made by management are subject to favourable terms and conditions applicable to personnel.

42 LOANS GRANTED TO SUBSIDIARIES AND ASSOCIATED COMPANIES

	2010	2009
Bostadsaktiebolaget Taos	1,644.5	1,788.9
As Oy Vanhaväylä 17	647.3	683.2
As Oy Kulosaaren Puistotie 40	18.9	27.8
As Oy Hyvinkään Muncinkatu 30	2.2	2.9
As Oy Helsingin Neitsytpolku 1 B	5,505.0	5,084.5

The loans have been granted under market terms and conditions.

NOTES CONCERNING THE GROUP'S SHAREHOLDINGS

43 INFORMATION ON SUBSIDIARIES AND ASSOCIATED COMPANIES

2010	Domicile	Holding, %	Shareholders' equity	Profit for the period	Assets	Liabilities	Income
Subsidiaries							
Suomen Asuntopopankki Oy	Helsinki	100.0					
Bostadsaktiebolaget Taos	Helsinki	61.9					
Subsidiaries that are not included in the consolidated financial statements							
As Oy Vanhaväylä 17	Helsinki	100.0	827.2	6.8	1 513.1	685.9	26.4
Associated companies							
As Oy Kulosaaren Puistotie 40	Helsinki	43.0	322.6	56.2	877.6	520.0	77.4
As Oy Mäkipellontie 4	Helsinki	30.0	158.4	-3.5	161.6	3.2	29.9
As Oy Hyvinkään Munckinkatu 30	Hyvinkää	25.0	574.4	1.5	574.6	0.1	7.5
As Oy Helsingin Neitsytpolku 1 B	Helsinki	50.0	5 088.8	0.0	20 540.6	15 451.7	0.0

The profit for the period and shareholders' equity are indicated in accordance with the most recently adopted financial statements of the company.

The Articles of Association of Bostadsaktiebolaget Taos includes a provision according to which one shareholder may have at most 20% of the votes.

As Oy Helsingin Neitsytpolku 1 B is a company under construction, the housing units of which have been sold and the possession of which will be assigned in connection with completion in February 2011.

2009	Domicile	Holding, %	Shareholders' equity	Profit for the period	Assets	Liabilities	Income
Subsidiaries							
Suomen Asuntopopankki Oy	Helsinki	100.0					
Bostadsaktiebolaget Taos	Helsinki	57.3					
Subsidiaries that are not included in the consolidated financial statements							
As Oy Vanhaväylä 17	Helsinki	50.7	794.5	-39.1	1 518.7	724.2	26.4
Associated companies							
As Oy Kulosaaren Puistotie 40	Helsinki	43.0	250.6	-45.5	899.8	649.1	69.9
As Oy Mäkipellontie 4	Helsinki	30.0	161.9	-1.1	162.5	0.6	83.5
As Oy Helsingin Yhdyskunnantie 56	Helsinki	27.1	833.8	3.6	836.4	2.6	3.6
As Oy Hyvinkään Munckinkatu 30	Hyvinkää	25.0	573.0	-0.7	573.0	0.0	6.0
As Oy Porvoonkatu 33	Helsinki	20.0	111.3	-0.5	117.7	6.4	49.6
As Oy Vantaan Piikkikuja 6	Vantaa	22.7	1 744.6	16.6	2 230.7	486.1	104.4
As Oy Helsingin Neitsytpolku 1 B	Helsinki	50.0	5 081.4	0.0	11 976.2	6 894.9	50.5

NOTES CONCERNING THE PARTY SUBJECT TO SUPERVISION INCLUDED IN THE GROUP

The Mortgage Society of Finland prepares consolidated financial statements. A copy of the consolidated financial statements is available from the Mortgage Society of Finland at Yrjönkatu 9A, FI-00100 Helsinki, Finland, or it may be ordered by telephone on +358 (0)9 228 361 or by e-mail at hypo@hypo.fi.

NOTES CONCERNING THE CAPITAL ADEQUACY OF THE GROUP AND RISK MANAGEMENT

The objectives and methods of the capital adequacy and risk management of the Mortgage Society of Finland Group, information on hedge accounting and risk exposures are presented in the notes to the consolidated financial statements, which also include information on the minimum amount, quality and surpluses of own funds. The Group publishes the essential capital adequacy and risk management information necessary for analysing risk tolerance annually as part of the audited consolidated financial statements and the attached report of the Board of Directors. Information on the minimum requirement for own funds and capital adequacy is also presented in the interim report.

The Group estimates that the surplus of its own funds is at a good level both quantitatively and qualitatively so as to also cover the operational and operating environment risks outside the minimum requirements.

In 2009, the Financial Supervisory Authority granted the Mortgage Society of Finland the permission not to apply the capital adequacy management requirements to the credit institution included in its consolidation group, i.e. Suomen AsuntoHypoPankki Oy. The capital adequacy management and the assessment of risk tolerance is thus implemented at the Group level in compliance with the principles agreed on in the Group.

RISK TOLERANCE

The Mortgage Society of Finland Group must be risk tolerant in relation to the risks in its business operations and its operating environment. Risk tolerance is made up of profitability, the quality and quantity of capitals and qualitative factors, which include reliable management and internal control, capital adequacy management and risk management.

The purpose of capital adequacy and risk management is to contribute to the undisturbed and stable operations of the Mortgage Society of Finland Group and to prevent such risks and losses from arising that could significantly jeopardise the capital adequacy of the Group companies or cause any weakening of the Group's reputation and appreciation.

The Group's capital adequacy and risk management complies with principles and instructions approved by top management and an authorisation system.

Capital is allocated and the sufficiency of risk buffers is tested regularly by conducting proactive reviews of the sufficiency of own funds through stress tests. In this review,

the objectives for asset management and fund-raising in accordance with the Group's growth strategy and certain external, potentially realised changes in the operating environment are taken into account. The sufficiency of own funds in relation to growth objectives is also taken pro-actively into account in the business strategy and the control and planning of business operations. The organisation of capital adequacy and risk management takes the Group and organisation structure and the scope of business operations into account. The management and control systems comply with the Credit Institutions Act and Decree and the standards of the Financial Supervisory Authority that specify them and the special Act on Mortgage Societies (936/1978).

In addition to the management and control systems mentioned above, both the Board of Directors and other top management are actively involved in the implementation and monitoring of business operations, thus carrying out risk management and internal supervision for their part.

The Group publishes the essential capital adequacy and risk management information necessary for analysing risk tolerance annually as part of the audited consolidated financial statements and the attached report of the Board of Directors. Information on the minimum requirement for own funds and capital adequacy is also presented in the interim report.

CAPITAL ADEQUACY MANAGEMENT

The objective of the Group's capital adequacy management is to maintain the risk tolerance of the Group companies by maintaining the profitability of growth-oriented business operations at a sufficient level. Profitability accrues own funds in the form of annual profit, which are re-employed for the development of competitive business operations. Of the own funds, Tier I funds are defined internally as items included in the Group's risk tolerance, and an internal minimum objective and a monitoring limit have been set for their amount in relation to risk-weighted receivables. A long-term objective has been set for the total capital adequacy of the Group.

The Group companies have applied the Basel II capital adequacy framework in the calculation of the capital needs for the credit and operational risks since 1 January 2007. The minimum amount of own funds for the credit risk is

calculated using the standard method, taking the nature and scope of the Group's operations into account. The minimum amount of own funds allocated to the operational risk is calculated using the basic method. Comprehensive assessment of capital adequacy requires that the Group assesses its risk exposure and maintains risk buffers, not only for the minimum requirements for own funds but also for risk areas remaining outside the minimum requirements. The key areas of these in the Mortgage Society of Finland Group are the refinancing risk arising from the differences in the maturities of receivable and liability items on the balance sheet, the interest rate risk arising from the differences in reference rates and different interest rate adjustment dates, and the impairment risk related to financial assets available for sale. The nature and scope of the Group companies' operations delimit such operations outside their business that would include foreign exchange risk or commodity risk or for which the Group would have a trading inventory and the related risks. The Group companies do not provide their customers with asset management services, investment services or payment services.

Own funds, their division into Tier I and Tier II items and information on the minimum requirement for own funds are presented in the table below. Capital adequacy was 18.9% (17.5%) on 31 December 2010, and the capital adequacy calculated from Tier I funds was 17.3% (15.8%). The Group estimates that the surplus of own funds is at a good level both quantitatively and qualitatively so as to also cover the operational and operating environment risks outside the minimum requirement.

RISK MANAGEMENT

Risk-taking is essentially related to lending and other financing operations. The objective of the Mortgage Society of Finland Group's risk management is to maintain healthy business operations and prevent such risks and losses from arising that would have a negative effect on profitability. In addition, the purpose of risk management is to ensure that all significant risks that may hamper the realisation of the Group's strategy and the achievement of its objectives are identified, assessed and reported regularly and that the risk buffers are maintained at a sufficient level.

The role of risk management and internal control has been increased by the reorganisation of functions and the recruitment of a new person in charge of risk management. The Chief Risk Officer is in charge of the organisation and development of risk management and actively participates in risk management in all areas of business operations. Regular monitoring of the implementation of risk management has been established as part of the tasks of the Group's internal supervision.

The managing director, the management team and the personnel implement risk management through authorisation by the Board of Directors, the authorities' guideline on the organisation of internal control and the instructions for the personnel prepared on the basis of them.

CREDIT RISK

A credit risk arises when the counterparty, usually the debtor, is not able to discharge his or her obligations and the collateral for the credit is not sufficient to cover the creditor's receivable. The counterparty risk is dealt with as part of the credit risk. When realised, the credit risk is ultimately seen as impairment losses.

The credit risk is the key risk among the business operations risks of the Mortgage Society of Finland Group.

Lending

The Group's key business area is lending, which focuses on loans granted to households and housing companies against securing housing or residential property collateral. Loans are not granted without collateral. Lending is based on the customer's creditworthiness, sufficient ability to manage the loan and securing collateral. In addition, the project to be financed must be justified as a whole. Any deviations from the normal credit granting criteria are assessed in lending activities in operating processes with separate instructions.

As a rule, shares in housing companies or mortgages registered in a residential property are required as collateral for loans. Depending on the type of housing collateral, 50–70% of the fair value of the site is accepted as collateral. As a rule,

44 OWN FUNDS AND CAPITAL ADEQUACY

	2010	2009
Equity according to accounting	73,234.4	69,381.5
Adjustments made to Tier I funds	.	.
The impact of IFRS Standards (IAS 19)	-5,679.1	-6,328.5
Intangible assets	-658.0	-866.0
Adjustments made to Tier II funds	.	.
Fair value reserve, from hedging of cash flows	3,343.3	5,574.0
Subordinated liabilities	1,360.0	1,700.0
Own funds according to capital adequacy calculation	71,600.6	69,461.0
of which Tier I funds		
Basic capital	5,000.0	5,000.0
Reserve fund	22,689.8	22,589.8
Contingency fund	21,173.5	18,923.5
Retained earnings	21,344.1	21,156.6
Profit for the period	1,615.0	2,098.4
The impact of IFRS standards (IAS 19)	-5,679.1	-6,328.5
Intangible assets	-658.0	-866.0
Total Tier I funds	65,485.3	62,573.9
of which Tier II funds		
Revaluation reserve	4,698.2	-386.9
Fair value reserve, financial assets available for sale	57.0	5,574.0
Subordinated liabilities	1,360.0	1,700.0
Total Tier II funds	6,115.2	6,887.1
Minimum requirement of own funds		
To cover the credit and counterparty risk	29,154.0	30,591.2
To cover the operational risk	1,190.0	1,174.0
Total minimum requirement of own funds	30,344.0	31,765.2
Surplus of own funds	41,256.6	37,695.8
Risk-weighted receivables and commitments	364,428.0	382,390.0
Capital adequacy, %, Tier I funds	17.3	15.8
Capital adequacy, %	18.9	17.5

fair value means the price received in a voluntary sale between parties independent of the site. Almost all of the Mortgage Society of Finland's personnel working in lending are certified estate agents, one purpose of which is to reinforce the Mortgage Society of Finland's ability to assess the fair value of collateral. With regard to residential property collateral, the debtor is re-quired to arrange insurance cover for the site. In case of potential neglect of insurance premiums, the Mortgage Society of Finland maintains a special in-surance policy to secure its collateral position related to lending. In lending by the Mortgage Society of Finland, the collateral must be located in Finland.

The credit decisions related to lending are based on a credit decision analysis conducted before decision-making, in which the guidelines and regulations of the authorities and the Mortgage Society of Finland Group's own instructions ratified by top management are complied with. The personnel's awareness of the contents of the existing instructions and its practical application is ensured through training, competence tests and internal control. In addition, the Mortgage Society of Finland utilises intensive participation of management in the daily lending activities, risk management analyses concerning the quality of the loan portfolio, and regular inspections of the loan and collateral process by internal supervision.

The Group's loan portfolio is distributed to loans with housing collateral in the whole of Finland, where the debtor is a household or a housing company or a corresponding housing corporation. However, the majority of the lending and collateral is directed to Uusimaa and growth centres. The Mortgage Society of Finland does not operate in sparsely populated areas or locations with net emigration. The arising and existence of risk concentrations caused by individual counterparties or counterparties operating in the same sector is continuously monitored.

The liability limits of large customer entities are kept at a lower level than the maximum limit in accordance with the credit institution legislation. Of the acceptable techniques to decrease the credit risk, guarantees and financial collateral are utilised as necessary in the risk management of large customer entities.

45 MAXIMUM AMOUNT OF THE CREDIT AND COUNTERPARTY RISK

	2010 Book value On average during the period	2009 Book value On average during the period
	Book value	Book value
Lending		
Not fallen due (incl. renegotiated)	458,999.9	440,843.1
Fallen due 1-3 months	60,450.9	72,104.7
Non-performing, fallen due →3 months	997.9	2,068.3
Total lending	520,448.7	515,016.1
Other		
Receivables from financial institutions		
Not fallen due	26,222.3	6,108.8
Notes and bonds		
Not fallen due	36,552.4	91,049.3
Shares and holdings	112.8	7,062.1
Derivative contracts		
Not fallen due	627.0	1,001.9
Guarantee receivables and other off-balance sheet receivables	11,184.7	5,343.0
Total other	74,699.3	110,565.0
Non-performing receivables/total lending, %	0.19%	0.40%

Impaired receivables with zero balance sheet value total EUR 446,790.20 [EUR 576,677.45]. Information on recognition of impairment losses related to lending is presented in Note 14 and the accounting policies.

Breakdown of collateral in accordance with the capital adequacy calculation of lending

	2010	2009
State, municipality or financial collateral, risk weight 0%	1.0%	1.1%
Deposit collateral, risk weight 20%	0.8%	0.6%
Housing collateral, risk weight 35%	79.6%	80.6%
Housing collateral, risk weight 75%	7.5%	8.6%
Receivable the collateral of which has not been taken into account in the capital adequacy calculation or the risk weight of which is 100%	11.1%	9.1%
	100.0%	100.0%

Other investments consist of distributed liquidity investments in creditworthy financial institution or company counterparties. The Board of Directors confirms the counterparty limits.

The derivative contracts have mainly been concluded in compliance with the general terms and conditions of the Finnish Bankers' Association for derivative contracts, and they are executed so that the contract-specific cash flows of the same due date with the same counterparty may be paid net.

46 CONCENTRATION OF LENDING

	2010	%	2009	%
Lending by borrower group				
Households	357.381.4	69%	367.082.8	71%
Housing corporations	118.802.9	23%	103.900.8	20%
Private companies	40.090.5	8%	41.728.4	8%
Other	4.173.8	1%	2.304.1	0%
Total	520.448.7	100%	515.016.1	100%
Lending by purpose of use				
Permanent residence	457.964.3	88%	443.708.1	86%
Consumer credit	24.844.1	5%	24.069.1	5%
Holiday home	6.593.6	1%	6.930.0	1%
Other	31.046.8	6%	40.309.0	8%
Total	520.448.7	100%	515.016.1	100%
The group "Other" mainly includes loans granted for housing unit and housing plot investments.				
Lending by province				
Uusimaa	421.662.3	81%	428.334.3	83%
Rest of Finland	98.786.4	19%	86.681.9	17%
Total	520.448.7	100%	515.016.1	100%

The credit risk is continuously measured using both factors anticipating credit risks and factors describing the quality and distribution of the loan portfolio. The average of Loan to Value (LTV) values showing the relationship of loan balances to the most recently saved fair values of the collateral of the loans, established through the Mortgage Society of Finland's own calculation model, was 57.9% with regard to the whole lending portfolio at the end of the financial period. The figure in question is a weighted average taking the different amounts of loans and the fair values of collateral into account. The un-weighted average of the LTV values was 48.2%. LTV value calculation takes the real collateral into account, which here refers to mortgage deed mortgages to real property or lease rights and buildings, shares in housing companies and comparable, and rights of residence. Other collateral of the loans, such as guarantees, has not been taken into account.

Circumstances requiring provisions have been eliminated in the calculation model.

Liquidity deposits and derivatives

Those credit institution and company counterparties for which top management has ratified a counterparty limit are accepted as counterparties for the short-term investments and derivative receivables of the Group companies. The maximum amount of the limits are kept lower than the maximum amounts in accordance with the credit institution legislation.

Other credit risk counterparties

Of other counterparties, the credit information of lessees is checked in the lease operations of housing units owned by the Mortgage Society of Finland Group, and, as a rule, residential plots are only leased at the construction stage to housing companies owned by listed construction companies.

The fulfilment of the obligations of lessees is also secured by rent collateral arrangements.

Insofar as the Mortgage Society of Finland Group starts a new supplier relationship in a key service with a new supplier partner, the supplier's credit information and background are checked in the manner allowed by valid legislation.

Impact of the credit risk on capital adequacy

The capital adequacy requirement for the credit risk is calculated using the standard method in accordance with the regulations of the Financial Supervisory Authority. The minimum amount of own funds for the credit risk in accordance with the standard method has also been considered sufficient in the Group's internal capital adequacy assessment procedure. It has not been considered essential to use ratings given by external credit rating institutions in the calculation of the liability values of asset items.

The total amount of non-performing receivables related to lending – in other words, receivables that have been fallen due for over three months – decreased by EUR 1.1 million compared with the corresponding period in the previous year, amounting to EUR 998,000, which represents 0.19% of the loan portfolio.

Impairment losses continued to be moderate, amounting to EUR 41,000 (EUR 0.4 million). The efficient use of control means, the efficient monitoring of the credit risk and the highly moderate amount of impairment losses reflect the in-significance of the residual credit risk in relation to the Mortgage Society of Finland's own funds.

Liquidity deposits and derivatives

Those credit institution and company counterparties for which top management has ratified a counterparty limit are accepted as counterparties for the short-term investments and derivative receivables of the Group companies.

OPERATIONAL RISKS

Operational risks refer to losses caused by disturbances, errors or deficiencies in information systems, operating processes or the operation of the personnel, or changes in external factors. Operational risks also include contractual and other legal risks.

Operational risks arising from the Mortgage Society of Finland Group's business entity are surveyed and measured by a comprehensive risk management framework adapted to the Mortgage Society of Finland Group, implemented through cooperation between internal audit and risk management independent of business operations in a manner adapted to the size of the Group, and reporting based on it, which considers both occurring risk types and the likelihood of the realisation of risks and their impact. Risks are assessed and measured in accordance with a previously prepared inspection and reporting plan by both the management team and top management. Due to the nature of the operational risks as a comprehensive risk area, the Mortgage Society of Finland Group has also confirmed principles of operational risk management which describe the supervision responsibilities of these risks and allocate them to a personal level between members of the management team.

As a small player, the personal, information technology and single office risks are emphasised among the operational risks of the Group. As a result of the single office operating model, the operational risks typical of remote communication are emphasised in the business processes. These are related to, for example, the identification of the customer and the starting of a customer relationship, and ensuring the data security of communication.

Personnel risks are managed through diversified job descriptions that are confirmed annually, balanced personal scorecards derived from the objectives of the company, regular training covering all personnel groups and substitute arrangements adapted to the operations of a small player, as well as investments in wellbeing at work and the personnel incentive and commitment system. Attention is also paid to the management of personal risks by distributing expertise and responsibility to a number of persons in the organisation, taking expediency factors into account.

During 2010, the Mortgage Society of Finland Group has increased the resources of risk management by establishing the new post of risk management director, which covers the Group risk management as a whole and ensures that the point of view of risk management is taken into account in all business operations of the Group. The Chief Risk Officer is a member of the Mortgage Society of Finland Group's management team; however, his independence of the business operations is ensured, taking the dimensions of the Group into account.

The key information systems have been outsourced to recognised actors in the field or acquired as software packages. The key information systems have also been duplicated, and they are mainly located outside the Group's own facilities. The Group has prepared for risks arising from malfunctions of information systems through service agreements and contingency planning. Attempts have been made to ensure the awareness and expertise of the whole personnel concerning operating processes and their critical stages, particularly with regard to information security, customer identification, and customer due diligence systems and internal supervision, by increasing instructions and maintaining them continuously.

The risks of a single office are also managed, among other things, through duplicated information technology systems and the office's own fire, water and burglary loss protection. The Mortgage Society of Finland Group also maintains up-to-date insurance coverage in case of various business operations disturbance situations including, among other things, potential unusability of office facilities.

Legal risks are related to new product and service concepts, in particular. These risks are managed by using agreements with standard terms and conditions as far as possible and, as necessary, by utilising the expertise of well-known actors in the field. New products and services are also assessed in advance from the point of view of operational risks. In the planning of key business processes, special attention is paid to operational risks related to remote communication.

In the Mortgage Society of Finland Group, the capital adequacy requirement for the operational risk is calculated using the "basic method" approved by the Financial Supervisory Authority. The own funds allocated to operational risks in the basic method are established to be sufficient in the Group's internal capital adequacy assessment procedure.

LIQUIDITY RISKS

The Group's liquidity risks comprise various financing risks that are directed to the entire operations in other words, the banking book. These risks are measured, monitored and managed by reviewing the mutual structure and distribution of the interestbearing items on the balance sheet.

The long-term or structural financing risk on the balance sheet

The long-term or structural financing risk on the balance sheet refers to the uncertainty related to the financing of long-term lending proportioned to deposit fundraising and fund-raising without collateral on market terms. When realised, the risk endangers the continuance of growth-oriented lending and poses challenges for the maintenance of the net financing position. The starting point for the Group's fund-raising and the means for managing the structural financing risk is to ensure the financing of long-term lending by maintaining diverse financing counterparties and means of financing. The existing limits for arranging long-term fund-raising and for

securing the financing position are kept at a sufficient level in relation to the growth objectives of business operations and the uncertainty caused by the operating environment. The share of deposit fund-raising of the total fund-raising is increased in accordance with the strategy. Implemented debt issues and used and unused financing limits are regularly reported on to top management. The Mortgage Society of Finland has been given permission to act as a counterparty to central bank financing, but the activities in question were yet not in operational use at the end of 2010.

The share of deposit and other fund-raising implemented over the long term of the total fund-raising was more than 70% on 31 December 2010.

Short-term liquidity risk

Short-term liquidity risk refers to a quantitative and temporal imbalance of the Group's short-term net cash flows. When realised, the risk causes a failure to meet the payment obligations binding on the Group and temporarily checks the possibilities for lending.

The risk is managed by maintaining sufficient liquidity in relation to the payment obligations and uncertainty factors arising from the operating environment, and by distributing the liquidity investments in liquid instruments in accordance with the counterparty limits. When assessing the amount of liquidity that is sufficient from the point of view of managing the liquidity risk, a potential bank run on sight deposits is taken into account, in which case the share exceeding the deposit guarantee limit of deposits repayable on demand would be withdrawn over a short period. In addition to the maintenance of liquidity investments, liquidity is secured by binding limits concluded with various counterparties.

The Group's top management monitors the sufficiency of liquidity as part of the Group's scorecard objectives.

Short-term liquidity, which includes cash and cash equivalents plus cheque account and other binding liquidity limits, totalled EUR 116.1 million (EUR 157.8 million) on the review date 31 December 2010.

Short-term liquidity covered payment obligations related to debt and deposit agreements for 2.5 months following the balance sheet date (6 months). In addition to short-term liquidity, the payment obligations related to the growth objectives of lending and fund-raising are covered through binding limits on long-term financing or through fund-

raising limits based on certificate of deposit and bond programmes.

The Group's payment obligations related to debt and deposit agreements valid on the balance sheet date, including net cash flows from derivative financial instruments, were as follows:

47 LIQUIDITY RISK

Cash flows of financial liabilities and derivatives in 2010	Less than 3 months	3 to 12 months	1 to 5 years	5 to 10 years	More than 10 years	Total
Liabilities to financial institutions	3,086.9	60,359.8	34,548.9	15,300.0		113,295.5
Liabilities to the public and public sector entities	108,937.5	19,312.6	73,087.8	19,514.9		220,852.8
Debt securities issued to the public	22,813.6	98,456.0	170,243.5	0.0		291,513.1
Derivative contracts	298.2	3,959.9	4,069.6	1,212.9		9,540.5
Subordinated liabilities		99.3	1,384.8			1,484.2
Total liabilities	135,136.1	182,187.6	283,334.6	36,027.8	0.0	636,686.1

Cash flows of financial liabilities and derivatives in 2009	Less than 3 months	3 to 12 months	1 to 5 years	5 to 10 years	More than 10 years	Total
Liabilities to financial institutions	14,215.1	5,374.2	85,328.5	13,143.0		118,060.8
Liabilities to the public and public sector entities	108,750.7	27,193.4	69,296.6	26,298.0	376.6	231,915.3
Debt securities issued to the public	28,943.9	115,696.4	151,409.9			296,050.3
Derivative contracts	422.8	6,529.5	8,353.2	2,297.6		17,603.1
Subordinated liabilities		99.3	1,384.8	340.0		1,824.2
Total liabilities	152,332.5	154,892.9	315,773.1	42,078.6	376.6	665,453.8

Refinancing risk

The maturity imbalance between receivables and liabilities on the balance sheet, or the refinancing risk, causes a risk of an increase in the costs of refinancing. This imbalance is managed by concluding fund-raising agreements that are as long-term as possible, taking the objectives set for the market terms and pricing of fund-raising into account. When loans are granted, the maturity of the receivables is longer than the average maturity of fund-raising. The impact of the deposit portfolio on the average maturity and average inter-est rate of fund-raising is regularly monitored.

The repayments of certain fund-raising 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 leads to the fact that the maturity imbalance of receivables and liabilities on the balance sheet is slighter in reality than when the loans were granted. The average maturity of fund-raising is monitored at Group level, and it is regularly reported on to top management. The average maturity based on debt agreements was about 2.5 years on 31 December 2010, while it was three years at the end of the previous financial period.

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

MARKET RISKS

Market risks refer to the possibility of loss having an impact on operating profit and comprehensive profit arising from the variation in market prices.

A change in the market value of interest-bearing agreements related to the Group's business operations may be due to a change in the general interest rate level, a change in the credit risk related to the counterparty, short supply of an instrument on the market, in other words, lack of liquidity, or a combination of these. The Group's objective is to maintain the changes in the market value of balance sheet items measured at market values; in other words, notes and bonds and interest derivatives, at such levels that they do not endanger the achievement of profitability and capital adequacy objectives. Top management monitors the impact of market valuations on the Group's comprehensive profit and fair value reserve, and regularly assesses the management and realisation of market risks.

Price risk, or change in the market value of liquidity investments and derivatives

Items on the balance sheet other than the interest-bearing receivable items of lending are by nature intended to maintain liquidity and are thus short-term. Unfavourable changes in market values occurring during the holding period of notes and bonds decrease the cash flows that can be accrued from them. The risk of changing market values related to notes and bonds is managed by only making liquidity investments to an amount that sufficiently secures the liquidity of the Group. The investments are mainly made with variable interest rates and in a distributed manner in different counterparties, in accordance with the counterparty limits given by top management.

Derivative financial instruments are only used in fund-raising for hedging purposes; in other words, the market risks directed to the Group's banking book are not increased by concluding derivative financial instruments. Unfavourable market value changes of interest derivatives are seen during the maturity as a decrease in own funds (the fair value reserve) and comprehensive profit, until the result from the hedging instruments or the interest derivatives is recognised as income simultaneously with the result from the hedged items.

Interest rate risk on the balance sheet

Interest rate risk refers to an unfavourable change in the annual net interest income (income risk) and the current value of balance sheet items sensitive to the interest rate (financial risk) caused by the fact that the amounts, reference rates and interest rate adjustment dates of interest-bearing receivables and liabilities deviate from each other.

The income risk is measured, among other things, by calculating the impact of a oneway interest rate change of two (2) percentage points on the Group's net interest income over one year. The objective of income risk management is to maintain the receivable and liability items in the banking book so that their amounts, reference rates and repricing times are kept through natural hedging such that the impact of fluctuations in market interest rates on the net interest income of the Group would be as slight as possible and temporary. In order to manage the interest rate risk, the Group's interest rate position is kept as neutral as possible in accordance with the market risk strategy approved by the Board of Directors, taking into account that the fund-raising is upfront in relation to lending. The reference rates of interest-bearing receivables are determined in accordance with reference rates generally used in mortgage loans. In fund-raising, operations take place on market terms, and, depending on the arrangement, the reference rate used is either the six or twelve-month Euribor interest, or a fixed rate following the reference rates and repricing times of the receivable portfolio on the balance sheet. The most common re-reference rate for deposits is the Hypo Prime interest rate, the pricing of which follows changes in the general interest rate level based on the Mortgage Society of Finland Group's

own decisions. The interest rate risk that is open after "natural hedging" is managed through derivative financial instruments concluded for hedging purposes in order to achieve a neutral interest rate position over an anticipated period.

The financial risk is measured by calculating the impact of a one-way change of two (2) percentage points in interest rates on the current value of interest rate sensitive balance sheet items; in other words, the financial value of the Mortgage Society of Finland. The negative impact of the net cash flows of the interest rate sensitive receivable and liability items on the balance sheet discounted to the current value on the financial value of the Mortgage Society of Finland Group must not exceed the maximum limit of 20 per cent proportioned to the Group's own funds set by the Financial Supervisory Authority.

In the Group's internal capital adequacy assessment procedure, a sufficient amount of own funds have been allocated to market risks on the basis of internal analysis.

RISKS RELATED TO OWNERSHIP OF HOUSING UNITS AND RESIDENTIAL PLOTS

Impairment, return and damage risks, and risks related to the concentration of ownership are directed to the shares in housing companies and residential plots owned by the Mortgage Society of Finland Group.

The statutory maximum amount of the Mortgage Society of Finland Group's property holdings and the comparable loans and guarantees granted to real estate corporations is 13 per cent of the balance sheet total. This limit forms the basis for the management of the risks related to the Mortgage Society of Finland Group's housing and residential plot holdings. The internal maximum amount of real estate holdings is kept lower than the absolute statutory limit through internal monitoring limits.

The total amount of the real estate holdings of the Mortgage Society of Finland Group on the balance sheet was 9.9% (9.7%) of the balance sheet total on 31 December 2010.

48 INFORMATION ON INTEREST RATE RISK

Repricing time in 2010 (EUR million)	Less than 3 months	3 to 12 months	1 to 5 years	5 to 10 years	More than 10 years	Total
With variable interest rates						
Receivables	345.7	518.9				864.6
Liabilities	141.0	640.7	11.4			793.0
Net	204.7	-121.8	-11.4	0.0	0.0	71.5
With fixed interest rates						
Receivables	3.0	22.2	106.9	13.9	0.3	146.3
Liabilities	0.7	124.7	64.2	16.1		205.7
Net	2.3	-102.5	42.6	-2.1	0.3	-59.4
Other						
Receivables		37.9				37.9
Liabilities		37.9				37.9
Net	0.0	0.0	0.0	0.0	0.0	0.0

In the table describing interest rate risk, derivative contracts are shown at nominal value, other receivables and liabilities at balance sheet values. In each group describing interest tying, derivative contracts are also shown, combined with either the receivable or the liability group. Liabilities with variable interest rates include items that are by nature repayable on demand, and they are assumed to be repriced within less than three months. The item "Other" presents financial instruments including linked derivatives.

Sensitivity analysis

If market interest rates would have increased by 2% (decreased by 2%) on the balance sheet date, the Group's net interest income would increase by EUR 1.6 million (decrease by EUR 1.6 million) over a period of 12 months. The change in net interest income would mainly be caused by the repricing of variable interest rate receivables at higher (lower) interest rates than on the balance sheet date. A decrease in the market interest rates of two percentage points on the balance sheet date would increase the negative value of the fair value reserve by EUR 4.1 million. The financial value of the Mortgage Society of Finland would, in turn, decrease by EUR 0.3 million due to a rise in interest rates by 2%.

Repricing time in 2009 (EUR million)	Less than 3 months	3 to 12 months	1 to 5 years	5 to 10 years	More than 10 years	Total
With variable interest rates						
Receivables	353.3	423.1				776.4
Liabilities	276.6	410.2				686.9
Net	76.6	12.8	-0.0	0.0	0.0	89.5
With fixed interest rates						
Receivables	4.9	17.6	101.2	17.2	2.9	143.8
Liabilities	2.4	20.9	184.1	17.0		224.3
Net	2.5	-3.3	-82.9	0.2	2.9	-80.6
Other						
Receivables		37.9				37.9
Liabilities		37.9				37.9
Net	0.0	0.0	0.0	0.0	0.0	0.0

In the table describing interest rate risk, derivative contracts are shown at nominal value, other receivables and liabilities at balance sheet values. In each group describing interest tying, derivative contracts are also shown, combined with either the receivable or the liability group. Liabilities with variable interest rates include items that are by nature repayable on demand, and they are assumed to be repriced within less than three months. The item "Other" presents financial instruments including linked derivatives.

Sensitivity analysis

If market interest rates would have increased by 2% (decreased by 2%) on the balance sheet date, the Group's net interest income would increase by EUR 0.7 million (decrease by EUR 0.7 million) over a period of 12 months. The change in net interest income would mainly be caused by the repricing of variable interest rate receivables at higher (lower) interest rates than on the balance sheet date. A decrease in the market interest rates of two percentage points on the balance sheet date would increase the negative value of the fair value reserve by EUR 5.2 million. The financial value of the Mortgage Society of Finland would, in turn, decrease by EUR 30 thousand due to a rise in interest rates by 2%.

Impairment risk

The impairment risk is realised if the fair values of residential plots or shares in housing companies permanently decrease lower than the acquisition prices. The impairment risk may also be realised when a site is sold. In order to manage the impairment risk, the Mortgage Society of Finland Group makes long-term investments. The Group's housing and residential plot holdings are made up of leased sites. The majority of the sites are distributed in Finland's largest growth centres, mainly in the Helsinki metropolitan area. Sites located abroad are not acquired. The value of the housing units and residential plots presented 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. With regard to residential plot holdings, the impairment risk has been eliminated by agreements.

The book values of the property group, excluding premises in own use, were about 83% (85%) of the estimated fair value on 31 December 2010. No impairment losses directed to holdings were recognised during the financial period.

Profit risk, damage risk

Profit risk refers to a decrease in the returns that may accrue on holdings. The profit risk is realised if the leasing rate of the sites decreases or the return level of the lease market generally decreases. The lease agreements of the housing units owned by the Mortgage Society of Finland Group address the timing of rent adjustments, the lessor's right to adjust the rent and the linking of rent levels to indexes. The plot rents are adjusted annually on the basis of the cost-of-living index so that only an increase in the index has an impact on the rent, increasing it. The profit risk is also managed by maintaining the good general condition of the holdings and by selecting the holdings from attractive areas from the point of view of leasing; in other words, mainly from growth centres in good locations. Damage risks are covered by requiring sufficient insurance cover of the sites and rent collateral from the lessees.

The leasing rate was 95.3% at the end of 2010.

The net profit objective set for housing and residential plot investments varies between 5% and 7%, depending on the site. The net profit on housing and residential plot investments calculated using book values was 5.5% (4.6%) in 2010. The average rent per square metre was EUR 15.92/m²/month.

Concentration risk

The housing and residential plot investments of the Mortgage Society of Finland Group are distributed over a number of sites in different growth centres. There are no concentrations of holdings at individual sites. The concentration risk of counterparties in the business operations related to housing and residential plots is managed by ensuring that there are a large number of counterparties. When plot entities are leased for the construction period, as a rule, only listed and established actors recognised in the field are accepted as counterparties.

In the Group's internal capital adequacy assessment procedure, the risk related to the ownership of housing and residential plots is taken into account as its own risk area.

STRATEGIC RISK

Strategic risks are identified and assessed regularly and in a documented manner as part of the strategy work of top management, and also among the Mortgage Society of Finland's key employees as part of the risk management monitoring and reporting system. The nature of the authority risk, risks arising from economic and other fluctuations in the operating environment and risks affecting the availability of fund-raising is such that they are realised due to significant changes in the macroeconomy and cause requirements for change for the Group's business operations. Risks related to the competition situation, in turn, are mainly caused by decisions made by competitors. With regard to all of these risks, the Mortgage Society of Finland Group's means of protection is to further specify the selected operational strategy in the manner allowed by the new circumstances. Ensuring that the Mortgage Society of Finland is well-known is also considered to be included in strategic risks.

The authority risk is seen in changes in the regulation and supervision environment of credit institution operations, potentially implemented over a fairly short period. The realisation of unanticipated changes within a rapid schedule may increase costs tied to management and information technology, and thus weaken the profitability of the operations over the short term. Depending on the availability of resources, such changes may also slow down the entry into the market of the special product and special service packages of customer service, and affect the Group's competitiveness in relation to other credit institution actors.

When reviewed over the long term, changes to the regulation and supervision environment guarantee for their part that credit institution operations as a field of business are on a healthy and profitable basis.

Unfavourable changes in the operating environment, such as strong economic fluctuations, cause a risk that the growth objectives of lending are not achieved. The effects of a slump may also weaken the total quality of the loan portfolio and the values of properties used as collateral may simultaneously decrease, reiterating the weakening of the loan portfolio.

Extraordinary crises on the capital market have unfavourable effects on the availability and price of refinancing. In such a situation, the Group's payment obligations are managed in a proactive manner by adapting business operations to secure liquidity.

Intense competition between credit institutions causes both threats and opportunities for the profitability of the Mortgage Society of Finland. Competing for total customer relationships by lowering the mortgage loan margin in an unhealthy way may lead to a short-term slowing of the growth of profitability of the Mortgage Society of Finland. However, it is the Mortgage Society of Finland's objective to maintain its good competitive position on the market through its own special products and its strategy of being a special actor in mortgage financing.

The risk related to the weakening of the profile of the Mortgage Society of Finland has been decreased through a long-term renewal programme, due to which the Mortgage Society of Finland Group has become clearly better known. The profile is continuously reinforced by networking, by increasing visibility in various media in a balanced cost-effective way, and especially by active management of individual customer contacts. In parallel with the media visibility of the managing director, the visibility of other key persons of the Mortgage Society of Finland is increased in a controlled manner to decrease the personal risk related to the acting management. The key business indicators for the profile are contacts made and deposit and loan applications received, the number of which is daily monitored and regularly reported to the entire personnel and top management.

Strategic risks have been taken into account in the Group's internal capital adequacy assessment procedure as their own risk area.

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of The Mortgage Society of Finland for the year ended 31 December, 2010. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

RESPONSIBILITY OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

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, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The

Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Supervisory Board or the members of the Board of Directors of the parent company or the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or whether they have violated the Act on Credit Institutions or the Act on Mortgage Societies or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

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

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

OPINION ON THE COMPANY'S FINANCIAL STATEMENTS AND THE REPORT OF THE BOARD OF DIRECTORS

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Helsinki 1.3.2011

PricewaterhouseCoopers Oy
Authorised Public Accountants

Juha Wahlroos
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 2010 to be presented to the auditors and the Annual General Meeting. We hereby accept the Board of Director's proposal concerning the disposal of profits.

The retiring members are Markku Koskela, Helena Jaatinen, Tauno Jalonen and Markus Heino.

Helsinki 28 February 2011

Markku Koskela
Chair, Supervisory Board

Väinö Teperi
Vice Chair, Supervisory Board

Antti Arjanne
Elina Bergroth
Mikael Englund
Markus Heino
Harri Hiltunen
Helena Jaatinen

Kari Joutsa
Markku Koskinen
Kallepekka Osara
Jukka Räihä
Hannu Tarkkonen
Veikko M. Vuorinen

RELEASE OF FINANCIAL STATEMENTS

The Board of Directors and the Supervisory Board of the Mortgage Society of Finland approve the financial statements and the related annual report to be published on 28 February 2011, the date of their approval and certification. The members of the Mortgage Society of Finland will hold the 2011 Annual General Meeting by the end of April. The Annual General Meeting will verify the financial statements and release the administrative bodies from liability.

Corporate governance

As a bond issuer, the Mortgage Society of Finland has followed the recommendations on the governance of listed companies since 2004. The Securities Market Association's Finnish Corporate Governance Code is available at www.cgfinland.fi. A statement on compliance with, and exemptions from, the governance code in the Mortgage Society of

Finland Group is available at www.hypo.fi/hypo, along with the statutory 2010 Corporate Governance Statement. The following is a general outline of the Mortgage Society of Finland's governance system as well as its administrative bodies and their duties.

Supervisory Board



The members of the Supervisory Board are, from left to right: Väinö Teperi, Hannu Tarkkonen, Markus Heino, Helena Jaatinen, Kallepekka Osara, Harri Hiltunen, Markku Koskinen, Elina Bergroth, Jukka Räihä, Antti Arjanne, Kari Joutsen, Veikko M. Vuorinen and Mikael Englund.

SUPERVISORY BOARD

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

The Supervisory Board and its auditors monitor financial reporting, internal auditing, risk management and auditing of the accounts. They also evaluate the auditors' independence and the quality of non-audit services. Twice a year, the auditors examine the management and administration of the Mortgage Society of Finland's cash balance, securities, obligations, loan and collateral documents as well as liquidity.

The Supervisory Board shall have of 15 to 18 members. The members are appointed by the Annual General Meeting for a maximum term of three years. The members of the Supervisory Board shall be voting members of the Mortgage Society of Finland.

SUPERVISORY BOARD IN 2010

Markku Koskela, chairman, Doctor of Science (Economics), professor

Väinö Teperi, vice chairman, Master of Laws, lawyer

Antti Arjanne, Master of Laws, CEO

Elina Bergroth, Master of Arts, lecturer

Kyösti Ekdahl, Licentiate of Laws, Master of Science (Economics), Master of Laws (trained on the bench), CEO

Mikael Englund, Master of Science (Engineering), MBA, CEO

Markus Heino, Master of Laws, Master of Laws (trained on the bench), director

Harri Hiltunen, Master of Science (Economics), CEO

Helena Jaatinen, Master of Laws, CEO

Tauno Jalonen, CEO

Kari Joutsa, Master of Laws (trained on the bench), CEO

Markku Koskinen, Construction Engineer, property manager

Kallepekka Osara, Agrologist, farmer

Jukka Rähä, Master of Laws (trained on the bench)

Hannu Tarkkonen, CEO

Riitta Vahela-Kohonen, Master of Arts, project manager

Veikko M. Vuorinen, CEO

SUPERVISORY BOARD'S AUDITORS IN 2010

Markku Koskela, chairman, Doctor of Science (Economics), professor

Väinö Teperi, vice chairman, Master of Laws, lawyer

Harri Hiltunen, Master of Science (Economics), CEO

Kari Joutsa, Master of Laws (trained on the bench), CEO

DEPUTY AUDITORS IN 2010

Helena Jaatinen, Master of Laws, CEO

Tauno Jalonen, CEO

COMMITTEES

Nomination Committee

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

NOMINATION COMMITTEE IN 2010

Markku Koskela, chairman, Doctor of Science (Economics), professor

Jarmo Leppiniemi, vice chairman, Doctor of Science (Economics), professor

Väinö Teperi, Master of Laws, lawyer

Sixten Korkman, Doctor of Social Sciences, CEO

COMPENSATION COMMITTEE

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

COMPENSATION COMMITTEE IN 2010

Markku Koskela, chairman, Doctor of Science (Economics), professor

Väinö Teperi, vice chairman, Master of Laws, lawyer

Harri Hiltunen, Master of Science (Economics), CEO

Kari Joutsa, Master of Laws (trained on the bench), CEO

Board of Directors



Pictured here are the members of the Mortgage Society of Finland's Board of Directors. Sitting in the front are chairman Jarmo Leppiniemi and secretary Elli Reunanen. Standing behind them, from left to right, are Tuija Virtanen, Jari Eklund, Olli Salakka, Matti Inha, Sixten Korkman, Hannu Kuusela, Ari Pauna and Teemu Lehtinen.

BOARD OF DIRECTORS

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

The Act on Mortgage Societies (936/1978) states that "the Board of Directors of a mortgage society shall comprise at least five members elected by the Supervisory Board.

In addition, the CEO and another director of the mortgage society shall be members of the Board of Directors." In practice, "another director" refers to the COO. The CEO and the COO prepare matters for the meetings of the Board of Directors. The other members of the Board of Directors must be independent of the company, as specified by the Finnish Corporate Governance Code. Their independence is evaluated by the Board.

BOARD OF DIRECTORS IN 2010

Jarmo Leppiniemi, chairman, Doctor of Science (Economics), professor, member of the Board since 2000

Sixten Korkman, Doctor of Social Sciences, CEO, member of the Board since 2006

Jari Eklund, Master of Science (Economics), investment director, member of the Board since 2001

Matti Inha, Master of Laws, CEO, honorary financial counsellor, member of the Board since 2002

Hannu Kuusela, Doctor of Science (Economics), professor, member of the Board since 2001

Teemu Lehtinen, Doctor of Social Sciences, Master of Science (Engineering), CEO, member of the Board since 2005

Ari Pauna, Master of Laws, COO, member of the Board since 2006

Olli Salakka, Master of Science (Engineering), managing director, member of the Board since 2005

Tuija Virtanen, Doctor of Science (Economics), Senior Assistant, member of the Board since 2009

Director of General Banking Operations **Elli Reunanen** has served as the Board's secretary since 2009.

Management Group



The Management Group of the Mortgage Society of Finland are (from left to right) Matti Inha, Aija Kontinen, Mikko Huopio, Ari Pauna, Elli Reunanen and Jouni Lehtinen.

CEO

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

The Supervisory Board appoints the CEO on the motion of the Nomination Committee. Matti Inha (b. 1949), Master of Laws, was appointed as the CEO in 2002. His contract is valid until further notice.

MANAGEMENT GROUP

The Management Group assists the managing director, operating under his supervision and responsibility. The Management Group prepares strategic matters, significant operational matters and operational matters of principle

for the meetings of the Board of Directors. It also plans, implements and monitors the Group's continuous operations.

The Management Group consists of the managing director and his deputy, bank managers, CFO and the risk manager. The Management Group are:

Matti Inha (b. 1949), CEO, chairman, Master of Laws, honorary financial counsellor, member of the Management Group since 2002

Ari Pauna (b. 1967), COO, vice chairman, Master of Laws, member of the Management Group since 2002

Jouni Lehtinen (b. 1961), Diploma in Business and Administration, member of the Management Group since 2002

Aija Kontinen (b. 1963), CFO, Master of Science (Economics), member of the Management Group since 2004

Elli Reunanen (b. 1974), Master of Laws (trained on the bench), member of the Management Group since 2006

Mikko Huopio (b. 1968), CRO, Master of Laws (trained on the bench), member of the Management Group since 2010

ANNUAL GENERAL MEETING

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

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

AUDITORS

Auditing of the accounts
PricewaterhouseCoopers Oy

Juha Wahlroos, Master of Science (Economics), Authorized Public Accountant, responsible auditor

Jukka Mynttinen, Master of Science (Economics), Authorized Public Accountant, deputy

INTERNAL AUDITING

Pekka Karttila, internal auditor until 31 December 2010

Personnel



Chief Executive Officer **Matti Inha**
Chief Operating Officer **Ari Pauna**

Chief Financial Officer **Aija Kontinen**
Chief Risk Officer **Mikko Huopio**

GENERAL BANKING OPERATIONS – SERVICES FOR PRIVATE CUSTOMERS AND HOUSING COMPANIES

Director of General Banking Operations **Elli Reunanen**
Credit Manager, Legal Counsel **Pekka Karttila**

Loans and deposits

Home Financing Manager **Päivi Hietamies**, LKV
Home Financing Manager **Anja Kymäläinen**, LKV
Home Financing Manager **Anu Maliranta**, LKV
Home Financing Manager **Maarit Muhli**, LKV
Home Financing Manager **Hannele Nyström**, LKV
Home Financing Manager **Päivi Salo**, LKV

Services and contract amendments

Manager of General Ledger **Irma Könönen**
Home Financing Expert **Pirjo Dahlbom**, KED
Home Financing Expert **Seija-Sisko Kinaret**, KED

Internal and external accounting, reporting

Accounting Manager **Erja Lammi**

Marketing and card operations, Visa

Marketing Manager **Pauli Lange**, LKV

Information technology

IT Specialist **Ari Korkia-Aho**

Trainee

Financial Trainee **Ahti Aalto**

PRIVATE BANKING – SPECIAL FINANCING PRODUCTS, RS OPERATIONS AND APARTMENT RENTALS

Director of Private Banking Operations **Jouni Lehtinen**, LKV
Credit Manager, Real Estate Legal Counsel **Juho Pajari**

Major customers, loans and deposits

Financial Manager **Piia Kontinen**, LKV

Reverse financing solutions, products for seniors

Home Financing Manager **Maarit Valkeajärvi**, LKV

Joint ownership housing

Home Financing Manager **Eija Nevala**, LKV

Funding for housing companies, environmental loans

Home Financing Manager **Jari Häkkinen**, LKV

Savings products, PS savings (long-term savings)

Home Financing Manager **Kristiina Aitala**, LKV

Apartment rentals, RS issues

Property Specialist **Marja Niemelä**, LVV, KED

Trainee

Financial Trainee **Teemu Venäläinen**



1860 – 2010
150 years



1860 – 2010
150 years

The first 150 years of the Mortgage Society of Finland

From imperial proclamation to a loan portfolio of EUR 520 million in 2010.
Deposit base of EUR 131 million. More than 23,000 active customers.

- | | | | |
|--------------|--|-----------|---|
| 21 Dec 1858 | The Senate of Finland's decision about the proclamation to be made to establish the Mortgage Society of Finland. | 1881–1884 | Senator Gustav Robert Alfred Charpentier serves as CEO. |
| 25 May 1859 | His Imperial Majesty's Gracious Proclamation on the terms and general principles of the Mortgage Society of Finland. | 1865–1914 | Freedom fighter, Lieutenant and Knight of Danneborg Herman Liikanen serves the Society as an accountant for nearly 50 years. |
| 15 Sep 1859 | First general meeting in Helsinki for the establishment of the Mortgage Society of Finland. | 1884–1905 | Senator Pehr Kasten Samuel Antell serves as CEO. |
| 4–6 Jul 1860 | Decision on the establishment of the Mortgage Society of Finland in Hamina at a general agricultural meeting. | 1890s | Time of economic growth. The Society's loan portfolio totalled FIM 22 million in 1890 and FIM 73 million in 1913. |
| 24 Oct 1860 | Senate ratifies the rules of the Mortgage Society of Finland. Consul Otto Reinhold Frenckell serves as CEO 1860–1867. | 1906–1920 | Ernst Emil Schybergson , Bachelor of Laws, serves as CEO. |
| Feb 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. | 1914–1918 | First World War. Based on the guarantee of the Grand Duchy of Finland, the Republic of Finland paid off bonds issued before the war in the 1920s as creditors demanded payment on four currency-based loans in Swedish krona, the currency least affected by inflation. |
| 1 Feb 1862 | First private bond issue in Finland. | 1913–1917 | The Society finances AB Brändö Villastad, the garden suburb of Kulosaari in Helsinki. |
| Dec 1864 | First foreign loan from M. A. V. Rothschild & Söhne, Frankfurt am Main: 3 million Prussian thaler (FIM 8,998,300 after a 19 percent issue discount). | 1920–1928 | Senator August Ramsay serves as CEO. |
| 21 Jan 1865 | The Finnish mark, markka, is tied to a silver standard backed up by a FIM 8 million currency reserve deposited at the Bank of Finland by the Society. | 1927–1979 | Suomen Asuntophoteekkipankki (The Housing Mortgage Bank of Finland). A market share of 18 percent in loans made on urban real estate in the late 1920s. Slightly less than 70 percent of these loans went to Helsinki. The bank closed its operations due to foreign exchange losses. |
| 1868–1869 | Senator Aleksander August Brunou serves as CEO. | 1929–1942 | Auli Markkula , Master of Laws (trained on the bench), serves as CEO. |
| 1869–1881 | Senator J.V. Snellman serves as CEO at a fixed annual salary of FIM 8,000. | 1929 | The Great Depression. |



- 1937** The head office, which now houses the Ministry of Transport and Communication, taken over by the government as old bonds and related agricultural loans were assumed by the state.
- 1939–1945** Second World War.
- 1942–1967** **Ilmo Ollinen**, Doctor of Laws, serves as CEO.
- 1945–1959** Post-war period of reconstruction and resettlement. In addition to land loans, government funds also used for loans for housing companies and their owners; that is, home mortgage banking. Kansallis-Osake-Pankki and Pohjoismaiden Yhdyspankki, for example, served as agents, as did the Postisäästöpankki later on.
- 1960–1980** Loan portfolio grows slowly. Farm loans from government funds.
- 1967–1976** **Pentti Huhananntti**, Master of Laws (trained on the bench), serves as CEO.
- 1977–1978** **Pentti Huhananntti**, Master of Laws (trained on the bench), serves as CEO.
- 1979–1987** **Osmo Kalliala**, Master of Laws (trained on the bench), serves as CEO. Lending expands to home building and flat purchasing and to housing companies for renovation projects, as well as to new developments.
- 1987–2001** **Risto Piepponen**, Master of Laws (trained on the bench), serves as CEO. Lending focuses increasingly on housing companies and rental communities instead of private individuals. Positive net income even during banking crisis. The euro is adopted. Y2K preparations. Loan portfolio EUR 280 million. Average number of personnel 30.
- 2002–** **Matti Inha**, Master of Laws, serves as CEO.
- 2002–2005** First stage of the Society's restructuring programme: loan portfolio exceeds EUR 400 million. Growth focuses on private individuals. The Mortgage Society of Finland Group, a credit institution, is complemented by a deposit bank, Suomen AsuntoHypoPankki. The Society offers the widest selection of services related to home financing and housing in Finland. Strong competence development. Significant increase in efficiency.
- 2006–2009** Second stage of the Society's restructuring programme. Customer-orientated goals are further specified and strengthened under the theme "Secure Options for Better Living." Loan portfolio totals EUR 515 million. Deposit base amounts to EUR 115 million. More than 10,000 Visa cards. More than 23,000 customers. The investment portfolio of the residential property fund amounts to EUR 100 million. The Mortgage Society of Finland collaborates with all major residential constructors in Finland. Visa Co-Branding partners number about 30. The average number of personnel is 24.
- 2010** The Mortgage Society of Finland celebrates its 150th anniversary. The Society is a widely recognised specialist in Finland. A survey carried out in the autumn of 2010 shows that about 60 percent of Finns know the Mortgage Society of Finland as a home financing specialist as well as Suomen AsuntoHypoPankki, its subsidiary that employs an average of 27 people.
- 2011–2015** The Mortgage Society of Finland continues on its path of consistent and determined growth while carefully managing risks.



Henrik Borgström Jr was a key force behind the Mortgage Society of Finland

Henrik Borgström Jr was a member of the Board of Directors of the Mortgage Society of Finland from 1861 to 1865. He was an economic expert and a politically influential figure.

Borgström was active in circles that promoted a more independent Finland. He died in 1865. Later that year, the Finnish currency, markka, which had been introduced in 1860, was separated from the Russian rouble and tied to the value of silver. Along with J.V. Snellman, a famous Finnish statesman and philosopher, Borgström contributed greatly to the creation of Finland's own currency.

Born in Helsinki in 1830, Borgström was known as an economist and banking expert. After completing a Master of Laws in 1857, he continued his education abroad. He returned to Finland in 1858 and published a book about mortgage societies, the first book in Finland to explain how mortgage societies work. The book also included draft rules for a Finnish mortgage society.

Gradually, estate owners became more and more responsive to Borgström's idea of setting up a credit institution in Finland, based on the German and Scandinavian models. After a long recession, His Imperial Majesty's Gracious Proclamation on the terms and general principles of the Mortgage Society of Finland was issued in 1859. The Mortgage Society of Finland was established during a general agricultural meeting in Hamina on 4–6 July 1860. The Senate confirmed the Society's rules on 24 October 1860.

THE MORTGAGE SOCIETY OF FINLAND SUOMEN ASUNTOHYPOPANKKI

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