Risks and risk management

Risk management at Orava Residential REIT is based on an ability and willingness to bear risks, knowledge of major risks and the decided risk management policy. Risk management is part of daily operations and part of business management.

The goal of risk management is to identify the main uncertainties associated with achieving targets, to measure and assess the risks identified in advance and to decide on the actions to be taken regarding them. Key risks are classified into strategic and operational risks as well as financial and damage risks.

Risks are taken as an inherent part of business operations, and they are assessed both from the perspective of utilising the possibilities associated with them and from the perspective of mitigating and eliminating them.

Risk management is integrated as part of the strategy process, operations management system and business processes of Orava Residential REIT. The ultimate responsibility for risk management rests with the Board of Directors of Orava Residential REIT. It decides on the objectives of risk management, confirms the general principles of risk management, defines the duties and responsibilities and monitors major risks.

Orava Funds, the management company of Orava Residential REIT, is responsible for the organisation, management, development and reporting on risk management. The business organisation is responsible for the identification and assessment of any risks affecting its operations.

The risk management system is based on monthly reporting which monitors the development of the fair value of investment assets, the financial position, revenue, profitability, sales, trade receivables, expenses and, through them, the result trend. As part of risk management, the Board of Directors discusses and approves, at least annually, the authorisations regarding access to accounts etc.

The risks involved in Orava Residential REIT's business operations are regularly assessed as part of the company's annual planning and strategy process, the preparation and decision-making process concerning agreements related to the acquisition of investment assets and other agreements, and other operational activities. The company seeks to manage its risks through risk surveys and actions taken on their basis, as well as through systematic monitoring and market analyses.

Most significant risks

As part of the annual planning process, the most significant risks for Orava Residential REIT are regularly assessed through a risk survey where key risks are identified, the likelihood of their being materialised and their impact if materialised are estimated and the risk management methods are defined. The risk survey is conducted in the autumn as part of the company's annual planning and strategy process. If materialised, any of the risks described below may have a materially detrimental impact on the company's business operations, financial position, operational result and future outlook.

Risks related to the prevailing macroeconomic situation

The uncertain global economic and financial market conditions may have an unfavourable impact on the company's business operations, operational result, financial position, solvency and sources of capital.

The global debt crisis and the ensuing global recession which started in 2008 have had a negative impact on general business conditions, increased unemployment and reduced the confidence of entrepreneurs and consumers in the economy. Despite the enhanced measures taken by a number of governments, regulatory authorities and central banks round the world, the recovery of the economy has been slow. Recently, the general economic conditions in Europe and elsewhere in the world have increasingly reduced the foreseeability of the economy. There is also a risk that the global economy will descend into recession.

Even though the result of the company's business operations and the values of investment properties have remained fairly stable until now, the uncertainty in the global economy and the financial market may, however, affect the company. The current uncertainty and lack of foreseeability in the financial market and the macroeconomic conditions have had a detrimental impact on the availability of financing and increased the price of capital. It may also be difficult for the company to secure external financing for its investments on competitive terms and financing may become more difficult due to a decreased supply or growth in interest margins. Even though the company believes that its capital structure and financing will generate sufficient liquidity, there can be no certainty that changes in financial markets will not affect the company's solvency and availability of financing, or that the sources of financing will provide sufficient liquidity in all situations and at all times. The continuous debt crisis in European states, any unfavourable development in macroeconomic conditions and the continuing uncertainty in the financial market may have a detrimental impact on the company's investment assets, the price of financing or the availability of bank or capital financing, which, in turn, may have a harmful impact on the company's business, financial position, result of business operations, outlook and the value of the company's shares.

The uncertain global economic and financial market conditions have had a negative impact on the Finnish economy, A slowdown in the economy or a recession, regardless of its depth, or any other economic development in Finland may impact the company's business operations in a number of ways by affecting income, assets, solvency, business operations and/or the financial situation of the company and its tenants or potential investors.

The value of residential apartments typically follows any fluctuations that occur in the economy The value of residential apartments is impacted by a number of factors, such as interest rates, inflation, economic growth, the business environment, availability of financing, taxation and levels of construction. If the general economic situation weakens or the prices of apartments decline for some reason, it is possible that the value and yield of investment properties and the value of the company decrease. Great uncertainty also prevails on the future development of the economy. The company will not necessarily be able to utilise opportunities resulting from economic fluctuations or adapt to a long-term recession or depression. In addition, even though a slowdown in economic growth and recessions have historically increased the demand for rental apartments in Finland, it is possible that the demand for rental apartments will, however, decrease when the economy slows down or declines.

Risks related to the company's business operations

It may be challenging and difficult for the company to acquire investments that meet the company's goals. There can also be no guarantees that the investments made by the company will be successful in all circumstances. The opportunities for acquiring investment properties that meet the goals may weaken materially as a result of increased competition in the housing market, for example, in which case the targeted yields may not necessarily be met. There can also be no certainty that it is possible to acquire investment properties within the planned schedule or at all. It is possible that the company may not be able to acquire apartments from the planned regions. The acquisition region may thereby become considerably smaller than planned, in which case it may not be possible to diversify the apartment portfolio to the degree planned. As a result, the regional risk may increase and yield may decline.

The attractiveness of an investment property from the point of view of potential tenants is affected by its location, for example. The regions in which the company's investment properties are located may become less attractive. The appeal of an individual region may change considerably over time, which may have an adverse impact on the yield and rentability of investment properties located in the region in question. As the company's current investment properties are focused on the Helsinki Region and specific major and medium-sized Finnish cities, the company's business operations are dependent on the development of these regions and the general development in the Finnish economy.

The housing market is sensitive to fluctuations in demand and supply. The prices of apartments in Finland have historically followed the macroeconomic development. The cost level of housing and rental housing is impacted by a number of different factors, such as regulation, interest rates, economic growth, the availability of loan financing and taxation. Changes in demand and supply resulting from new production, investors' demand and supply and other factors may also have a material impact on housing costs and rental housing. A decrease in housing costs is likely to have a direct impact on the fair values of the company's apartment portfolio.

It is possible that the liquidity of the investment properties acquired by the company weakens, in which case fewer properties may be sold than planned or they may not be sold at all at the planned prices and on the planned schedule. A number of factors beyond the company's control affect the sales of the company's investment properties, such as the availability of bank financing to potential buyers, interest rates and the demand for and supply of similar apartments. A potential lack of liquidity in the housing market may restrict the company's opportunities to sell its apartments or change its investment portfolio at the right time due to the economic situation or other circumstances. It the market is not sufficiently active or is illiquid, there can be no certainty as to whether the company will be able to implement sales as expected or at all.

The company obtains a certificate of valuation and a condition assessment for the investment properties before the acquisition of each investment property. However, when acquiring investment properties, the company's estimate of the condition of the property is only based on the condition of some residential apartments located in the property. Accordingly, there can be no certainty that the condition of all of the residential apartments corresponds to the assessments made in advance, in which case the company may incur additional expenses. After the acquisition of investment properties the condition of each apartment is inspected.

It requires significant efforts on the part of the company's management work to make the acquired apartment portfolio generate rental income according to targets. Forecasting market rents is associated with uncertainty, and market rents may be realised at a lower level than forecasted, in which case the company's yield declines. The demand for rental apartments is also associated with uncertainty. The occupancy rate of the company's properties and tenant turnover depend on general economic factors. The occupancy rate has a significant impact on the company's operations. Tenant turnover incurs costs for the company resulting from the signing of leases or minor renovations usually performed when a tenant moves out, for example. However, the company strives to keep the occupancy rate of investment properties it lets at a high level by performing repairs in the investment properties. In addition, the company may incur losses from unpaid rental receivables.

The leases concluded by the company with its tenants are valid until further notice. The tenant may terminate the rental relationship with one month's notice. Therefore, the agreements valid until further notice include a risk that notice may be given to terminate a significant number of leases within a short period. In such cases, it may be difficult for the company to conclude a sufficient number of replacement leases within a short period.

According to the Real Estate Funds Act, the company shall measure apartments and real estate in other than its own use at fair value on its balance sheet. In addition, the change in the fair value of the company's apartments and real estate is recognised through profit or loss as a valuation gain or loss for the period during which it arises. Due to this, the company may become subject to significant gains or losses from the changes in the fair value of apartments and real estate regardless of whether they are sold or not. The company may suffer harm due to valuation losses from apartments and real estate, even though the company's business operations are profitable. This may lead to a breach of specific covenants. If it is not possible to change or to be released from the covenants of debt obligations, this may have an adverse impact on the terms and conditions of the company's financing.

The company regularly performs renovation and maintenance repairs in its apartments and real estate. It is also possible that large repair needs appear simultaneously in a number of apartments and properties acquired by the company.

The costs of modernisation and maintenance repairs are significant and mainly related to pipe repairs, facades, roofs, windows and balcony renovations. The pipes of residential buildings must typically be repaired at approximately 40-50-year intervals, usually including the repair of both water and sewage pipes. Facades, roofs and balconies must be renovated at approximately 25–35-year intervals. The company expects the current repair and maintenance costs of its properties to remain at approximately the same level in proportion to the size of the company's apartment portfolio in the future. In any case, renovation and maintenance repair costs may increase due to apartment energy efficiency requirements, for example, and therefore, there can be no certainty that the amount of the investments made by the company in renovation and maintenance costs will not significantly increase from the company's current estimate.

It is also possible that tenants cause significant damage to apartments. If insurance companies or tenants do not indemnify the damage caused, the company may have to bear the liability for potential repair costs. Large unexpected repairs and repair costs may lead to decreased solvency, a decline in the occupancy rate, loss of rental income and lower profitability. The company may also become liable to indemnify any damage caused or become involved in legal proceedings, which may harm the company's and its partners' public image.

The fair value of the company's apartment portfolio is determined monthly using a comparable sales multi-variable regression method using asking price material obtained from the Oikotie.fi service and certain other purchase price material. Even though the company attempts to ensure the correctness of its valuation methods by using an external valuer, the company's measurement model is not necessary suitable for all investment properties. There may be errors in the source material for the measurement, or a human error may take place in the measurement. Therefore, there can be no certainty that the company's valuations precisely reflect the value of the company's investment properties and their accessory asset items at any particular time or at all. As a rule, the results of the model cannot be generalised to apply to apartments that deviate from the material used in the measurement in terms of their age, floor area or other key characteristics. It is also possible that the function form common to all cities used in the modelling is not optimal for every sub-market to be estimated. Transparency has been emphasised in the choice of the estimation method at the cost of higher technical complexity in the calculation. Finally, it is also possible that there may be a programming error in the software used for estimation, although attempts are made to prevent this by using the latest versions of the software.

According to the general market practice in real estate fund operations, a separate management company provides specific services needed by the company. Due to this, the company has concluded a management agreement with Orava Funds plc ("the management company"). In accordance with the management agreement, the company alone is liable for the risk caused by its investment operations and the risks related to apartments and the company's other assets, and the responsibility of the management company is limited.

The management agreement is valid for a fixed term until the company's shares are subject to trading in a regulated marketplace, after which it continues until further notice with a period of notice of 12 months for both parties. The services provided by the management company are essential from the point view of the continuity of the company's business operations, so the company is to a certain extent dependent on the services provided by the management company. If notice is given to terminate the management agreement, the company will have to quickly obtain a new service provider. There can also be no certainty that a corresponding service provider is found, or that the company succeeds in concluding a corresponding agreement regarding its terms and conditions. In addition, the company's main financing bank has the right to call in the loans provided to the company prematurely if the management company or its direct or indirect owners change and, in such cases, the company is obligated to compensate for the costs incurred by the lender bank from this.

Excluding the CEO, the company has no personnel of its own, due to which the key persons employed by the managing company that acts as the company's agent have an emphasised significance for the company's success. It is possible that persons employed by the management company may change, the expertise of the persons involved in the operations become outdated, their ability to manage their tasks deteriorates, or the agreement concluded with the management company expires and the company does not manage to conclude a corresponding replacement agreement.

In its business operations, the company uses service providers it considers reliable. The company has concluded an agreement with Newsec Asset Management Oy and Ovenia Oy on housing management services, financial administration tasks and apartment rental, and commissioned Realia Management Oy, Newsec Asset Management Oy, Turun Seudun OP-Kiinteistökeskus Oy and Päijät-Hämeen OP-Kiinteistökeskus Oy to appraise the real estate securities owned by the company every six months. In addition, the company has mainly used Raksystems Anticimex Oy and Talokeskus Yhtiöt Oy for making condition assessments.

The ability of service providers to deal with their tasks may deteriorate, or they may discontinue their operations. The company may not necessarily be able to conclude agreements with service providers on acceptable terms and conditions or the quality of the services they provide may not be sufficient. Any of these issues may affect the ability of the company to implement its projects on time and within the agreed budget and may cause additional costs to the company.

The investment properties acquired by the company shall be in accordance with the provisions on the environment, health and safety laid down in Finnish legislation and other related regulation. Investment properties may be in conflict with the applicable statutory provisions; for example, they may contain construction materials hazardous to health. Any such event or a significant decrease in the value of investment properties which is not known or identifiable when investment properties are acquired or becomes evident at a later stage may have an adverse impact on the company. To ensure lawfulness, it may be necessary to make special investments in the removal, improvement or replacement of construction materials or structures, Correspondingly, the removal or cleaning costs of contamination, damage, stress or an adverse impact may be higher than expected. In addition, incompliance with regulations or the need to comply with new, stricter regulations may lead to higher costs or weaken the development of the company's operations. Even though the company has so far not been held responsible for measures related to the environment, health or safety, there cannot be full certainty that the company could not be held responsible for such measures in the future. Any of the risks described above may, if materialised, have an adverse impact on the company's business operations, financial position, result of operations, future outlook and the value of the company's shares.

In the company's view, its insurance coverage is typical for the industry. For example, all the investment properties owned by the company have valid full value real estate insurance. This full value real estate insurance cover includes property insurance cover, real estate ownership liability cover, the CEO's and Board of Directors' liability insurance and legal expenses insurance. In addition, the company and the management company have a joint administration liability insurance policy. However, the insurance policy includes releases from liability and limitations of liability with regard to both amount and loss events. The company has no insurance cover for damage that is not insurable or for which insurance policies are not available on financially reasonable terms. There can also be no certainty that notice will not be given to terminate the company's current insurance cover or that it is available on financially reasonable terms in the future. If assets of the company which it has not insured suffer damage or the damage caused exceeds the maximum amount indemnified, the company may have to obtain additional financing to repair or rebuild the damaged asset, or the company may lose the value of the damaged asset in part or in its entirety.

With regard to specific company functions, the company is dependent on information systems developed by third parties. In such cases, the company is also dependent on the ability and willingness of the parties in question to continue developing and maintaining the software and the ability of the company itself to use the information systems in question efficiently and utilise new technology and systems, as well as security and backup systems. Such information systems comprise telecommunication systems and software applications which the company uses to control its business operations, manage its apartment portfolio and risks, prepare operational and financial reports and carry out cash transactions. If malfunctions appear in the information systems, the company may incur considerable financial losses and customer liabilities, the company's reputation may be harmed, and the company may also become subject to measures from the authorities.

The company's ability to attract investors and tenants and implement transactions may decline if the company's reputation is harmed. If the company is not able, or it appears that it is not able, to solve problems potentially causing a risk to its reputation, the company's preconditions for conducting its business may deteriorate materially. A risk to reputation may be caused by conflicts of interest, legislation and regulation, legal risks related to the company's business operations, credit, liquidity and market risks, conflicts with tenants and other contracting parties and similar issues.

Even though the company complies with documented guidelines and procedures in the identification, supervision and management of risks, these guidelines and procedures do not necessarily recognise all risks, and the risks may be significantly higher than forecasted. A failure to identify, monitor and manage these risks may have an adverse impact on the company's business operations, financial position, result of operations, future outlook and the value of the company's shares.

Risks related to legislation

The company operates in a regulated and supervised industry. Potential changes in regulation that are material from the company's point of view (such as regulations related to health, safety, the environment, company law, auditing or taxation), authorities' measures, requirements set by the authorities, the manner in which the laws, regulations and measures in question are enforced or interpreted and the application and enforcement of new laws and regulations are beyond the company's control. Any changes may have adverse effects on the company's business operations, operational result and/or financial position. Any changes may require that the company adapt its business operations, assets or strategy. In addition to regulations that directly influence the company's business operations, the company's business operations, operational result and/or financial position may be indirectly affected by additional or stricter regulations that concern the letting of the company's investment properties or the company's operating environment. Potential amendments to the Tax Exemption Act can be referred to as an example.

In its operations, the company strives to comply with the Real Estate Funds Act and the rules for real estate investment operations, as this is a requirement for the tax benefits received by the company. However, there can be no certainty that the company will be able to comply with the Real Estate Funds Act and the requirements set in the rules for real estate investment operations in all market situations. No established practice for the application of the Real Estate Funds Act has as yet been developed in the company's industry.

The threat imposed for any neglect of the obligations and limitations set in the Tax Exemption Act is, by default, elimination from the system, in which case the company would fall within the sphere of normal income taxation. Elimination from the system would cause additional tax consequences for the company, as undistributed earnings and amounts transferred from earnings to other equity items during the tax exemption period less the amount of dividend distributed during the said tax year would be added to the company's taxable income.

In addition to the threat of being eliminated from the system, the law also includes tax sanctions. The company may become partially liable to pay tax (i) if the amount of rental income received by the company from its investment properties during the tax year is less than 80 per cent of the company's total income, excluding disposal prices of assets in residential use; (ii) if a shareholder's holding in the company's share capital is at least 10% on the dividend record date (according to the preliminary ruling issued by the Large Taxpayers' Office on 5 September 2013, 30% before 31 December 2014); or (iii) if the company disposes of its assets in residential use which the company has owned for less than five years. The company cannot control its shareholdings because the company's shares are subject to public trading and it has no information on the holdings of nominee-registered owners. For this reason, it is possible that the holding of a shareholder exceeds the limit of 10% or that the holdings of nominee-registered shareholders are interpreted to exceed the limit of 10%, which may cause erroneous or unfavourable interpretations of the company's tax treatment.

The AIFM Directive, i.e. the directive on alternative investment fund managers (2011/61/EU) was implemented in Finland with the Act on Alternative Investment Fund Managers ("the AIFM Act"), which entered into force on 15 March 2014. The AIFM Act lays down provisions on the licences, operating preconditions and reporting obligations of alternative investment fund managers. In May 2016, the company's management company received a licence from the Financial Supervisory Authority to act as a manager of an alternative investment fund as referred to in the AIFM Act. The application of the new regulation is related to uncertainty factors, which, if materialised, may have a detrimental impact on the company's business operations, financial position, financial result of its business, future outlook and the value of the company's shares. The AIFM Act also lays down specific requirements for the organisation of the operations referred to in the Act, the marketing of the alternative investment fund and the custody of the assets, which may increase the costs of the management company.

Financing risks

Even though the company has striven to hedge its loans from financial institutions with interest rate swaps in accordance with its hedging strategy, changes in market interest rates and margins may have an unfavourable impact on the company's business operations. In addition, because housing companies' company loans are not hedged, they are exposed to changes in interest rates. Even though the company strives to monitor interest rate developments and manage its interest rate risk, the possibility that the company fails to manage its interest rate risk cannot be excluded.

The company's business operations and the maintenance of its ability to pay its debts require a sufficient cash flow which is generated by rental operations and the disposal of investment properties. Even though, at present, the cash flow from operational activities added to by the disposal of investment properties generates sufficient assets for the company to meet its debt servicing requirements and the company's ability to acquire new financing is sufficient, there can be no certainty that the company can maintain such cash flow and a sufficient financial structure in the future.

In accordance with normal financing practice, the company is negotiating the refinancing of its loans with providers of the financing. However, the company may not necessarily achieve better terms and conditions or even terms and conditions of the current level in the negotiations concerning refinancing. In addition, the availability of new credit affects the company's ability to acquire new investment properties.

The company's loan agreements include financial covenants, such as loan to value, loan servicing margin and equity/assets ratio covenants. Breach of these covenants or the inability to achieve the required financial key figures may lead to a situation where the company neglects its debt obligations. Even though the company considers that its financial situation is good, a breach of the covenants in question may lead to a situation where the company has to renegotiate its financing, due to which the terms and conditions of the financing may weaken or the availability of financing may become more difficult, and this may cause the company to incur additional costs.

The loan to value ratio may have a significant impact on the company's business operations by (i) restricting the company's ability to acquire additional financing on corresponding or more favourable financial and other terms and conditions to finance its future working capital needs, investments or other general business needs; (ii) restricting refinancing opportunities, which may, in turn, restrict the company's ability to react to market conditions and economic downturns; (iii) requiring that a significant portion of the cash flow from the company's operational activities is used for paying loan capital and interest, which would reduce the funds and cash flow available for business operations and their development; (iv) exposing the company to unfavourable economic conditions more intensively than its competitors, which might weaken the company's competitiveness; (v) exposing the company to an increase in interest rates; and (vi) restricting the company's opportunity to pay dividends.

If any defaults in payment occur, the company's creditors may call in all the company's unpaid debts with the accrued interest and fees to be repaid immediately. Under these circumstances, the company's loan creditors also have the right to give notice to terminate the commitments concerning the provision of additional financing. If the company is unable to pay its debts when they fall due, the creditors have the right under the loan agreements to realise the collateral lodged with them to repay the debt. If the company's debt under the loan agreements is called in, there can be no certainty that this collateral will be sufficient to repay the company's debt.

The uncertainty in the financial market and the increasingly strict regulation of banks may mean that the price of the financing needed for the company's business operations increases and that it is more difficult to obtain financing.

Share and dividend risks

There can be no certainty that the company will be able to pay dividends in the future or that it will be able to follow its dividend policy. In addition, the company reports its financial results in compliance with IFRS, but the distributable funds of the company are determined according to Finnish accounting standards. Under the Tax Exemption Act, the company shall distribute at least 90% of its returns in dividends, excluding unrealised value changes (and comprehensive income items under IFRS). Even though the company's financial result excluding unrealised value changes in investment assets would show a profit, the company may not necessarily be able to distribute dividends, because under the Real Estate Funds Act the company has to record unrealised value changes as income or expenses. This may restrict the distribution of dividends by the company, even though the company's business would otherwise be profitable, especially in a situation where unrealised value loss is expensed, which thus reduces the financial result for the period and the company's ability to pay dividends.

The company's ability to pay dividends is affected by a number factors, such as the current and forecasted financial situation, needs for working capital, cash flow and result, and potential terms and conditions of a loan agreement binding the company or its subsidiaries. Dividend distribution may not jeopardise the company's solvency under the Limited Liability Companies Act. The Board of Directors must also ensure the preservation of the company's solvency before deciding on the distribution of dividends. There can therefore be no certainty on the amount of future dividends or the realisation of dividend distribution.

The market price of the company's listed shares may vary considerably, and it is not certain that active and/or liquid secondary markets will develop for the shares. The market price of the company's shares may vary significantly due to changes occurring in the attitude of the market towards the share or corresponding other securities and due to a number of other factors and events, such as changes in legislation affecting the company's operations or the financial result of the company's business or changes in development. The market price of the company's shares may decline below the subscription price of the shares. The market capitalisation of the company is affected by the subjective views of the company's investors on the value of the company. While the public quotation of the shares continues, the company cannot guarantee that the market price of the shares would correspond to the price paid by investors for the shares or that the secondary market for the shares on the stock exchange list is active.

The prices and turnover of shares in the market may at times vary considerably regardless of the development of the company's business or its outlook. In addition, the financial result of the company's business and its future outlook may sometimes fall below the expectations of the market, market analysts and investors. Any of these factors may lead to a decrease in the value of the listed shares or the market price of the company's other shares.

The company is planning to expand its operations by, among other things, issuing shares and directed convertible bonds, due to which the holdings of the current shareholders will be diluted through the issue of shares subscribed on the basis of convertible bonds and if they do not subscribe to new shares then to future share issues.

Any future share issues implemented by the company may have a detrimental effect on the market price of the shares. It is also possible that in any future transactions on properties implemented by the company, shares will be used as a means of payment, which may decrease the market price of the shares.

The liquidity of the shares is directly affected by the demand and supply of the share in question, and indirectly other factors, such as the general market situation and any market disruptions. If the liquidity of the shares is low, the company has concluded an agreement with Nordea Bank Finland Plc on a market guarantee the objective of which is to improve the liquidity of the share. Nevertheless, the liquidity of the share may be low, which may have a detrimental effect on the value of the shares. The opportunity of the investors to sell their holdings in the company may also weaken in this situation.

The development of the value of the shares is affected by, for example, the general market development, information on the company's realised financial development and forecasts on its future development. It is also possible that the price formation in the market will be disrupted, in which case the share prices do not reflect all information available in the market.

Historically significant price and volume fluctuations have prevailed generally in the share market and especially with regard to the market for smaller companies' shares, which have not always been in relation to the performance of the companies. Corresponding price fluctuations may have a negative impact on the share price regardless of the company's actual performance. Investors shall be aware that investments in the company are related to a high risk and there can be no certainty of any positive price development of the shares. In addition to the development of operations, the share price may be affected by a number of external factors. These may be, for example, the prevailing economic conditions and the market situation.

Capital management

The objective of capital management is to secure the Group's capability for continuous operations so that it can produce income for its owners and benefits to its other stakeholders. Another objective is to maintain an optimal capital structure, for example when interest rates change.

Capital is monitored on the basis of the loan to value ratio in the same manner as in similar companies where the financing banks require the fulfilment of covenant conditions to be regularly reported. The loan to value ratio is determined by dividing the Group's outstanding capital of interest-bearing debts withdrawn from banks, including the Group's share of the company loans allocated to owned housing company shares, by the debt-free value of housing company shares and other assets. The Group's strategy is to keep the loan to value ratio between 30% and 60%.