THE MORTGAGE SOCIETY OF FINLAND

Interim Report

1 January–30 September 2018

The Financial Statement Release 2018 will be published on 30 January 2019.

The Audited Financial Statements 2018 will be published on 27 February 2019

and The Annual Report during the week 12

The Interim Report does not contain all information and Notes that are required in the annual Financial Statements. The Interim Report should be read in conjunction with the Group's Financial Statements 2017, Interim Reports and Stock Exchange Releases published during period 1 January to 30 September 2018.

The figures in the tables in the Release are presented in thousands of euros.

The Interim Report has been approved by the Board of Directors of The Mortgage Society of Finland to be published on 31 October 2018. The Interim Report has been reviewed yet it has not been audited.

Hypo Group's Financial Statements Release can be accessed at http://www.hypo.fi/en/

Hypo Group’s January–September 2018

The home finance specialist Hypo Group’s operating profit grew by 21 percent.

CEO Ari Pauna:

“Urban citizens continue to show interest in owner-occupied housing and state of one’s own housing company. Our loan portfolio increased past EUR 2.5 billion representing annual growth of 20 percent. Net interest income, operating profit and competitiveness continue to improve despite the significant increase in the contribution to the Financial Stability Authority.”

- Operating profit increased to EUR 6.0 million (EUR 4.9 million 1–9/2017)
- Net interest income increased to EUR 9.0 million (EUR 6.3 million 1–9/2017)
- Non-performing loans remained low at 0.08% of loan book (0.13% 30 September 2017)
- Expected credit losses were 0.0% of the loan book
- Net fee and commission income was EUR 2.9 million (EUR 2.7 million 1–9/2017)
- Other income totaled EUR 2.4 million (EUR 4.0 million 1–9/2017)
- Common Equity Tier 1 (CET1) ratio, as calculated with standard and basic methods, was 12.1% (12.7% on 31 December 2017)

GROUP'S KEY FIGURES (1000 €)	1–9/2018	1–9/2017	7–9/2018	7–9/2017	2017
Net interest income	8 980	6 280	3 205	2 329	8 991
Net fee and commission income	2 909	2 690	971	807	3 525
Total other income	2 376	4 048	1 063	979	5 190
Total expenses	-8 313	-8 109	-2 297	-2 340	-11 055
Operating profit	5 952	4 909	2 942	1 775	6 651
Receivables from the public and public sector entities	2 512 308	2 130 428	2 512 308	2 130 428	2 212 574
Deposits	1 658 633	1 311 950	1 658 633	1 311 950	1 540 400
Balance sheet total	2 998 709	2 640 119	2 998 709	2 640 119	2 792 489
Return on equity % (ROE)	5,5	4,9	5,5	4,9	4,9
Common Equity Tier 1 (CET1) ratio	12,1	13,0	12,1	13,0	12,7
Cost-to-income ratio,%	58,1	62,4	43,9	57,0	62,5
Non-performing assets, % of the loan portfolio	0,08	0,13	0,08	0,13	0,14
LTV-ratio, % / Loan to Value, average, %	36,0	39,0	36,0	39,0	37,4
Loans / deposits, %	151,5	162,4	151,5	162,4	143,6

Calculation of key figures and definitions are set out below.

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HYPO GROUP

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

Our customer promise – a *secure way for better living* – guides all of our operations. Over 29,900 customers, mainly in growth centers, have already taken us up on our promise.

The Mortgage Society of Finland, the parent company of the Group, has its domicile and administrative headquarters in Helsinki. The street address of the Mortgage Society of Finland is Yrjönkatu 9 A, 00120 Helsinki and the mail address is P.O.Box 509, 00101 Helsinki. The Mortgage Society of Finland is a mutual company governed by its member customers.

Suomen AsuntoHypoPankki Oy deposit bank offers its customers deposit products, payment cards and residential land trustee services. The deposit bank Suomen AsuntoHypoPankki Oy is a member of the Deposit Guarantee Fund and a wholly owned subsidiary of The Mortgage Society of Finland.

S&P Global Ratings has assigned ‘BBB/A-2’ issuer credit ratings with stable outlook to The Mortgage Society of Finland.

Rating for the covered bonds of The Mortgage Society of Finland is ‘AAA’ (S&P Global Ratings).

OPERATING ENVIRONMENT

The economic growth stayed on course, even though the peak seems to have passed according to confidence indicators. The European Central Bank repeated its decision to keep the key interest rates steady at least through the summer of 2019 and to continue asset purchases until the end of 2018. Short-term interest rates that follow closely ECB's policy rates remained negative but the most common reference rate for housing loans, one-year Euribor rose slightly. At the end of September the one-year Euribor stood at minus 0.16 percent.

The Finnish economy continued to grow relatively strongly driven by domestic demand. Employment and wages increased. Household confidence declined a tad but remained at elevated levels. In the fall labor markets suffered from political strikes as trade unions protested against the government’s initiative to make it easier for small companies to lay off workers. Economic news were dominated by fears of trade war as well as the unstable political and economic situation in Italy.

House prices stayed in check as newbuilding eased the increasing demand in growth cities. Now more homes are completed in Finland than in the past 25 years. Rents went up by more than 2 percent year-over-year, but new rental apartments in the cities and decreasing demand in the rural areas helped to smooth the development. Housing loan stock rose by 2 percent from the previous year and the average interest rate on new mortgage loans stayed below 1 percent. Finnish FSA tightened the loan-to-value limit for homebuyers starting from July 2018, which cooled the housing market slightly in the autumn. At the same time the loan stock of housing companies continued to rise by more than 10 percent on an annual basis driven by housing investors.

RESULTS AND PROFITABILITY

July–September 2018

Hypo Group's operating profit was EUR 2.9 million (EUR 1.8 million for July–September 2017). Income totaled EUR 5.2 million (EUR 4.1 million) and expenses EUR 2.3 million (EUR 2.3 million).

January–September 2018

Hypo Group's operating profit was EUR 6.0 million (EUR 4.9 million for January–September 2017). Income totaled EUR 14.3 million (EUR 12.9 million) and expenses EUR 8.3 million (EUR 8.1 million). An increasing amount of operating profit originated from core business operations. Net interest income continued to grow to EUR 9.0 million (EUR 6.3 million) due to loan portfolio growth and lower funding costs. Net fee and commission income totaled EUR 2.9 million (EUR 2.7 million).

Net income from investment properties (housing units and residential land) amounted to EUR 1.9 million (EUR 2.2 million). Operating profit included EUR 0.4 million less net income from investment properties than the reference financial period.

Group's cost-to-income ratio was 58.1% (62.4%). The contribution to the Financial Stability Authority, recognized in full during the first half year and based on the European Securities and Markets Authority´s opinion (2015/ESMA/1462), increased total costs despite the cut of operating costs by nearly 3 % compared to the previous year.

Group's other comprehensive income EUR 4.9 million (EUR 5.5 million) includes EUR 4.9 million (EUR 4.1 million) profit for the financial period as well as the change in the fair value reserve EUR -0.2 million (EUR 0.8 million), the revaluation of defined benefit pension plans EUR 0.2 million (EUR 0.6 million) and adjustments of retained earnings EUR -0.1 million (EUR 0.0 million).

PERSONNEL AND DEVELOPMENT

On 30 September 2018, the number of permanent personnel was 49 (51 on 31 December 2017). These figures do not include the CEO and the deputy to the CEO.

ASSETS AND LIABILITIES

Lending

The loan portfolio grew to EUR 2,512.3 million (EUR 2,212.6 million on 31 December 2017) with annual growth of almost 20 percent.

Hypo Group has an entirely residential property-secured loan portfolio.

At the end of the financial period, the average Loan-to-Value ratio of the loan portfolio continued to strengthen and was 36.0% (37.4% on 31 December 2017).

Amount of non-performing loans was low at EUR 2.5 million (EUR 3.1 million on 31 December 2017), representing 0.08% of the loan portfolio (0.14%).

Liquid assets and other receivables

At the end of the financial period, cash and cash equivalents in accordance with the cash flow statement, combined with current account and other binding credit facilities, totaled EUR 411.3 million (EUR 506.1 million on 31 December 2017), which corresponds to 13.7% (18.1%) of the total assets. The cash and cash equivalents which totaled EUR 407.6 million consisted of assets distributed widely across various counterparties, and of debt securities tradable on the secondary market, of which 96.8% (91.5%) had a credit rating of at least 'AA-' or were of equivalent credit quality and 67.5% (100.0%) were ECB repo eligible. Liquidity covers wholesale funding cash flows for the following 31 months. The Liquidity Coverage Ratio was 118.9% (147.6%).

The defined benefit plans surplus of EUR 6.6 million (EUR 6.4 million on 31 December 2017) from the Mortgage Society of Finland's pension fund has been recognized in Group's other assets.

Hypo Group offers rental apartments and residential land for its customers. Hypo Group's properties are located in selected growth centers, mainly in the Helsinki Metropolitan Area. The property in Hypo Group's own use, the Mortgage House, is located in the center of Helsinki. The difference between the fair value and the book value of the properties totaled EUR 5.3 million (EUR 5.6 million on 31 December 2017). Group's properties carry no housing company loans.

Derivative contracts

The balance sheet value of derivative receivables was EUR 0.4 million on 30 September 2018 (EUR 0.3 million on 31 December 2017), and the value of liabilities was EUR 5.7 million (EUR 6.9 million).

Deposits and other funding

Deposits increased to EUR 1,658.6 million (EUR 1,540.4 million on 31 December 2017). The share of deposits accounted for 58.2% (58.2%) of total funding.

The share of long-term funding of total funding was 39.1% on 30 September 2018 (36.3%).

The total funding at the end of the financial period was EUR 2,849.1 million (EUR 2,645.5 million).

RISK TOLERANCE AND RISK MANAGEMENT

At the end of the financial period, Hypo Group's equity amounted to EUR 120.7 million (EUR 115.8 million on 31 December 2017). The changes in equity during the period are presented in Group's statement of equity attached to this Interim Report.

Group's CET1 capital in relation to risk-weighted assets on 30 September 2018 was 12.1% (12.7% on 31 December 2017). Profit for the financial period is included in the Common Equity Tier 1 capital, based on the statement by the auditors. In measuring credit and counterparty risk, the standardized approach is used. Group's own funds are quantitatively and qualitatively on an excellent level in relation to Group's current and future business. At the end of the financial period, Group's Leverage Ratio was 3.5% (3.7%).

Finnish Financial Supervisory Authority has set an additional capital requirement of one (1) percent to The Mortgage Society of Finland. The requirement is set on the basis of structural features in the financial system (systemic risk buffer) and it shall be met with consolidated Common Equity Tier 1 capital. Additional capital requirement takes effect on 1 July 2019.

Financial stability authority has decided not to impose an MREL-requirement on Hypo Group.

There have been no significant negative changes in the risk levels during the financial period. More detailed information on risk management practices and on capital adequacy is published with the Annual Financial Statements.

KEY EVENTS SINCE THE END OF THE FINANCIAL PERIOD

Since the end of the financial period of 1 January – 30 September 2018, no significant changes have occurred in the outlook or financial standing of the Mortgage Society of Finland or its Group.

FUTURE OUTLOOK

Finnish economy and employment will grow moderately in the next 12 months, which will be reflected positively in the housing markets and in housing loan demand. Urbanization will continue and support the housing market and loan demand in growth cities, while areas with declining population will suffer and polarization will deepen. Newbuilding will increase the importance of the largest cities.

Hypo Group concentrates on its core business operations, whereupon risk level of lending will remain moderate. Following the increase in loan portfolio and net interest income, Hypo Group's core business' share of the profit for the financial period keeps growing. The operating profit for 2018 is expected to reach at least the 2017 level.

Helsinki, 31 October 2018

The Board

CONSOLIDATED INCOME STATEMENT, IFRS

(1000 €)	7-9/2018	7-9/2017	1–9/2018	1–9/2017	2017
Interest income	6 070.4	5 426.7	17 479.7	15 091.5	20 414.6
Interest expenses	-2 865.2	-3 097.9	-8 499.3	-8 811.9	-11 423.4
NET INTEREST INCOME	3 205.2	2 328.8	8 980.4	6 279.6	8 991.2
Income from equity investments				39.9	39.9
Fee and commission income	997.4	829.8	2 987.6	2 764.4	3 618.0
Fee and commission expenses	-26.3	-22.7	-78.9	-74.1	-93.3
Net income from securities and foreign currency transactions					
Net income from securities trading	444.3	-116.3	367.3	557.6	421.4
Net income from financial assets available for sale		541.3		1 219.1	1 749.6
Net income from financial assets at fair value through other comprehensive income	20.0		108.4		
Net income from hedge accounting	-5.3	1.3	-26.1	-33.9	-27.1
Net income from investment properties	613.7	546.3	1 943.2	2 150.2	2 924.0
Other operating income	-9.8	6.7	-17.2	115.7	82.4
Administrative expenses					
Personnel costs					
Wages and salaries	-1 131.7	-1 064.4	-3 668.8	-3 678.4	-4 968.5
Other personnel related costs					
Pension costs	-219.4	-215.1	-725.6	-723.9	-1 135.2
Other personnel related costs	-55.6	-63.4	-100.3	-145.3	-218.2
Other administrative expenses	-585.6	-614.0	-1 847.1	-1 975.2	-2 687.5
Total administrative expenses	-1 992.3	-1 956.9	-6 341.7	-6 522.9	-9 009.4
Depreciation and impairment losses on tangible and intangible assets	-122.0	-140.5	-374.0	-335.6	-475.0
Other operating expenses	-183.2	-247.0	-1 573.6	-1 267.3	-1 576.3
Impairment losses on loans and other commitments		4.1		16.6	6.0
Net gains/losses on derecognition of financial assets measured at amortised cost	0.7		-32.6		
Net gains/losses on derecognition of other financial assets	0.0		8.7		
OPERATING PROFIT	2 942.3	1 774.9	5 951.7	4 909.3	6 651.4
Income taxes	-544.4	-315.0	-1 047.7	-832.2	-1 144.0
OPERATING PROFIT AFTER TAX	2 397.8	1 460.0	4 903.9	4 077.1	5 507.4
PROFIT FOR THE PERIOD	2 397.8	1 460.0	4 903.9	4 077.1	5 507.4

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, IFRS

(1000 €)	7-9/2018	7-9/2017	1–9/2018	1–9/2017	2017
Profit for the period	2 397.8	1 460.0	4 903.9	4 077.1	5 507.4
Other comprehensive income items					
Items that may be reclassified subsequently to income statement					
Change in fair value reserve					
Cash flow hedges	0.0	152.2	65.0	461.8	526.2
Available for sale financial assets		540.1		367.8	202.6
Financial assets at fair value through other comprehensive income	-399.9		-250.7		
	-399.9	692.3	-185.7	829.6	728.8
Items that may not be reclassified subsequently to the income statement					
Revaluation of defined benefit pension plans	197.5	54.5	203.6	607.8	742.1
Correction for previous year, IFRS 9	0.0		-57.8		
	197.5	54.5	145.8	607.8	742.1
Total other comprehensive income items	-202.4	746.8	-39.9	1 437.5	1 471.0
COMPREHENSIVE INCOME FOR THE PERIOD	**2 195.5**	**2 206.7**	**4 864.1**	**5 514.6**	**6 978.4**

CONSOLIDATED BALANCE SHEET, IFRS

(1000 €)	30.9.2018	31.12.2017	30.9.2017
ASSETS			
Cash	88 200.0	201 200.0	141 525.0
Debt securities eligible for refinancing with central banks			
Other	210 969.9	284 718.7	275 213.9
Receivables from credit institutions			
Repayable on demand	7 027.6	16 322.0	11 536.0
Other	8.9	77.5	121.6
	7 036.4	16 399.5	11 657.6
Receivables from the public and public sector entities			
Other than those repayable on demand	2 512 308.4	2 212 574.4	2 130 428.4
Debt securities			
From public sector entities	101 365.3	0.0	0.0
	101 365.3	0.0	0.0
Shares and holdings	132.4	132.4	132.4
Derivative financial instruments	437.8	258.9	186.1
Intangible assets			
Other long-term expenditure	2 832.6	2 816.9	2 791.6
Tangible assets			
Investment properties and shares and holdings in investment properties	59 163.0	59 686.0	61 979.3
Other properties and shares and holdings in real estate corporations	846.9	854.5	857.1
Other tangible assets	264.1	295.6	309.8
	60 274.0	60 836.2	63 146.2
Other assets	8 601.2	8 568.8	8 511.5
Accrued income and advances paid	6 360.4	4 843.8	6 371.0
Deferred tax receivables	190.7	139.3	155.6
TOTAL ASSETS	**2 998 709.2**	**2 792 488.8**	**2 640 119.4**

CONSOLIDATED BALANCE SHEET, IFRS

(1000 €)	30.9.2018	31.12.2017	30.9.2017
LIABILITIES			
Liabilities to credit institutions			
Central banks	80 000.0	80 000.0	80 000.0
Credit institutions			
Other than those repayable on demand	11 210.9	13 873.8	33 871.1
	91 210.9	93 873.8	113 871.1
Liabilities to the public and public sector entities			
Deposits			
Repayable on demand	827 105.1	749 110.9	719 065.9
Other	831 527.7	791 289.6	592 883.7
	1 658 632.8	1 540 400.5	1 311 949.5
Other liabilities			
Other than those repayable on demand	17 517.6	19 545.5	24 847.0
	1 676 150.5	1 559 946.0	1 336 796.5
Debt securities issued to the public			
Bonds	1 002 830.1	852 292.2	903 384.5
Other	78 448.3	134 929.0	119 425.8
	1 081 278.5	987 221.2	1 022 810.3
Derivative financial instruments	5 701.6	6 944.6	6 389.3
Other liabilities			
Other liabilities	6 430.7	9 636.3	23 467.3
Deferred income and advances received	6 676.1	4 524.1	7 793.4
Subordinated liabilities			
Other	491.6	4 490.1	4 982.0
Deferred tax liabilities	10 082.9	10 030.3	9 650.9
EQUITY			
Basic capital	5 000.0	5 000.0	5 000.0
Other restricted reserves			
Reserve fund	22 810.7	22 799.9	22 799.9
Fair value reserve			
From cash flow hedging	0.0	-65.0	-129.4
From fair value recognition	-216.7	34.0	199.2
Defined benefit pension plans	2 663.2	2 459.6	2 325.3
Unrestricted reserves			
Other reserves	22 923.5	22 923.5	22 923.5
Retained earnings	62 601.8	57 162.9	57 162.9
Profit for the period	4 903.9	5 507.4	4 077.1
	120 686.4	115 822.3	114 358.5
TOTAL LIABILITIES	**2 998 709.2**	**2 792 488.8**	**2 640 119.4**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(1000 €)	Basic capital	Reserve fund	Fair value reserve	Other reserves	Retained earnings	Total
Equity 1 January 2017	5 000.0	22 796.7	957.6	22 923.5	57 166.1	108 843.9
Profit for the period					4 077.1	4 077.1
Profit use of funds		3.2			-3.2	0.0
Cash flow hedges						
Amount recognised in equity			-38.3			-38.3
Amount transferred to the income statement			615.6			615.6
Change in deferred taxes			-115.5			-115.5
Financial assets available for sale						
Change in fair value			1 678.8			1 678.8
Amount transferred to the income statement			-1 219.1			-1 219.1
Change in deferred taxes			-91.9			-91.9
Revaluation of defined benefit plans						
Actuarial gains / losses			759.8			759.8
Change in deferred taxes			-152.0			-152.0
Total other comprehensive income	0.0	3.2	1 437.5	0.0	-3.2	1 437.5
Equity 30 September 2017	**5 000.0**	**22 799.9**	**2 395.1**	**22 923.5**	**61 240.0**	**114 358.5**
Equity 1 January 2018	5 000.0	22 799.9	2 428.6	22 923.5	62 670.3	115 822.3
Change in accounting policy					-57.8	-57.8
Restated equity 1 January 2018	5 000.0	22 799.9	2 428.6	22 923.5	62 612.5	115 764.5
Profit for the period					4 903.9	4 903.9
Other comprehensive income						
Profit use of funds		10.7			-10.7	0.0
Cash flow hedges						
Amount recognised in equity			-66.6			-66.6
Amount transferred to the income statement			147.9			147.9
Change in deferred taxes			-16.3			-16.3
Financial assets at fair value through other						
Change in fair value			-209.2			-209.2
Amount transferred to the income statement			-108.4			-108.4
Change in deferred taxes			66.8			66.8
Revaluation of defined benefit plans						
Actuarial gains / losses			254.5			254.5
Change in deferred taxes			-50.9			-50.9
Total other comprehensive income	0.0	10.7	17.9	0.0	-10.7	17.9
Equity 30 September 2018	**5 000.0**	**22 810.7**	**2 446.5**	**22 923.5**	**67 505.7**	**120 686.4**

CONSOLIDATED CASH FLOW STATEMENT

(1000 €)	1–9/2018	1–9/2017
Cash flow from operating activities		
Interest received	16 345.5	14 364.0
Interest paid	-7 476.3	-6 944.8
Fee income	2 832.5	2 728.4
Fee expenses	-78.9	-74.1
Net income from securities and foreign currency transactions	367.3	557.6
Net income from available-for-sale financial assets		1 219.1
Net income from financial assets at fair value through other comprehensive income	108.4	
Net income from hedge accounting	-26.1	-33.9
Net income from investment properties	1 904.3	1 274.4
Other operating income	-17.2	115.7
Administrative expenses	-6 320.1	-3 799.2
Other operating expenses	-1 590.2	-1 283.1
Credit and guarantee losses		16.6
Expected credit losses	-23.7	
Income taxes	-110.5	-1 021.7
Total net cash flow from operating activities	**5 915.0**	**7 119.0**
Operating assets increase (-) / decrease (+)		
Receivables from customers (lending)	-300 104.8	-310 097.2
Collateral, derivatives	26.8	525.2
Investment properties	-2 649.1	2 693.0
Operating assets increase (-) / decrease (+) total	**-302 727.1**	**-306 879.0**
Operating liabilities increase (+) / decrease (-)		
Liabilities to the public and public sector organisations (deposits)	118 231.4	108 905.9
Operating liabilities increase (+) / decrease (-) total	118 231.4	108 905.9
NET CASH FLOWS ACCRUED FROM OPERATING ACTIVITIES	**-178 580.6**	**-190 854.1**
Cash flows from investments		
Change in fixed assets	-350.5	-280.1
Equity investments increase (-) / decrease (+)	0.0	39.9
NET CASH FLOWS ACCRUED FROM INVESTMENTS	**-350.5**	**-240.2**
Casf flows from financing		
Bank loans, new withdrawals	120.3	80 247.3
Bank loans, repayments	-2 783.3	-84 462.7
Other liabilities, increase (-) / decrease (+)	-2 050.1	-3 672.0
Bonds, new issues	315 621.8	280 255.4
Bonds, repayments	-166 244.8	-74 170.6
Certificates on deposit, new issues	99 433.6	146 855.6
Certificates on deposit, repayments	-155 914.3	-138 863.1
Subordinated liabilities, new withdrawals	11.0	29.0
Subordinated liabilities, repayments	-4 009.5	-4 027.0
NET CASH FLOWS ACCRUED FROM FINANCING	**84 184.7**	**202 191.8**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**-94 746.4**	**11 097.6**
Cash and cash equivalents at the beginning of the period	**502 318.1**	**417 299.0**
Cash and cash equivalents at the end of the period	**407 571.7**	**428 396.5**
CHANGE IN CASH AND CASH EQUIVALENTS	**-94 746.4**	**11 097.6**

NOTES

1. Key accounting policies

This Interim Report applies the same IFRS accounting policies as the Group's Financial Statements on 31 December 2017, with the exception of changes in accounting policies as a result of the new IFRS 9 and IFRS 15 standards adopted on 1 January 2018. The effects of the adoption of IFRS 9 are described in more detail in Interim Report 1 January – 31 March 2018. The Interim Report has been prepared in accordance with the IAS 34 standard (Interim Financial Reporting) approved in the EU. No other new standards or interpretations with material effect on Hypo Group's financial position, profit or equity, entered into force in the financial period beginning 1 January 2018.

The Interim Report does not contain all information and Notes that are required in the annual Financial Statements. The Interim Report should be read in conjunction with the Group's Financial Statements 2017 and Interim Report and Stock Exchange Releases published during 1 January to 30 September 2018. The figures in the tables in the Release are presented in thousands of euros.

Parent company of the Group, the Mortgage Society of Finland has its domicile and administrative headquarters in Helsinki. The street address of the Mortgage Society of Finland is Yrjönkatu 9 A, 00120 Helsinki and the mail address is P.O.Box 509, 00101 Helsinki. Hypo is a mutual company governed by its member customers.

The Interim Report has been approved by the Board of Directors of The Mortgage Society of Finland to be published on 31 October 2018. The Interim Report has been reviewed yet it has not been audited.

Hypo Group's business operations constitute a single segment, retail banking.

Hypo Group's consolidated financial statements cover The Mortgage Society of Finland as well as the deposit bank Suomen AsuntoHypoPankki Oy, of which The Mortgage Society of Finland owns 100 percent, and Bostadsaktiebolaget Taos, of which the Group companies own 54.6 percent. The financial statements of AsuntoHypoPankki have been consolidated using the acquisition cost method. Ownership in housing company Bostadsaktiebolaget Taos is accounted for using IFRS 11 Joint Arrangements –standard. Assets, liabilities, revenue and expenses of the joint operations are recognized in relation to Hypo Group's interest in the joint operation. Inter-company transactions and balances between Group companies are eliminated.

2. New standards and interpretations

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

2.1. IFRS 16 Leases

IFRS 16 Leases standard is endorsed by EU. Hypo Group will adopt the new standard from 1 January 2019 and onwards. Impacts of IFRS 16 –standard will be assessed closely during 2018. Standard will apply to contracts where Hypo Group's entity is either lessor or lessee. Application of the standard is not expected to materially affect Group's consolidated financial position, profit or equity.

3. Issuances and repayments of debt securities and equity instruments

Issuances, repayments and repurchases of debt securities appear on cash flow statement for the period from 1 January to 30 September 2018. Equity instruments have not been issued nor repaid during the period from 1 January to 30 September 2018.

4. Capital Adequacy Information

Hypo Group own funds and capital ratios

(1000 €)	30.9.2018	31.12.2017	30.9.2017
Common Equity Tier 1 (CET1) capital: Instruments and reserves			
Capital instruments and the related share premium accounts	5 000.0	5 000.0	5 000.0
of which: Basic capital	5 000.0	5 000.0	5 000.0
Retained earnings	62 601.8	57 162.9	57 162.9
Accumulated other comprehensive income and other reserves	48 180.7	48 152.0	48 118.5
Independently reviewed interim profits net of any foreseeable charge or dividend	4 903.9	5 507.4	4 077.1
Common Equity Tier 1 (CET1) capital before regulatory adjustments	120 686.4	115 822.3	114 358.5
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
Intangible assets	-2 266.1	-2 253.5	-2 233.3
Deferred tax assets that rely on future profitability	-190.7	0.0	0.0
Fair value reserves related to gains or losses on cash flow hedges	0.0	65.0	129.4
Defined-benefit pension fund assets	-7 973.9	-7 563.1	-7 433.2
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-10 430.7	-9 751.6	-9 537.1
Common Equity Tier 1 (CET1) capital	110 255.7	106 070.7	104 821.4
Additional Tier 1 (AT1) capital	0.0	0.0	0.0
Tier 2 (T2) capital	0.0	0.0	0.0
Total capital (TC = T1 + T2)	110 255.7	106 070.7	104 821.4
Total risk weighted assets	907 958.4	836 775.6	807 786.4
Capital ratios and buffers			
Common Equity Tier 1 (CET1) as a percentage of total risk exposure amount	12.1	12.7	13.0
Tier 1 (T1) as a percentage of total risk exposure amount	12.1	12.7	13.0
Total capital as a percentage of total risk exposure amount	12.1	12.7	13.0
Institution specific buffer requirement, %	7.0	7.0	7.00
of which: capital conservation buffer requirement, %	2.5	2.5	2.5
of which: countercyclical buffer requirement, %	0.0	0.0	0.0
of which: systemic risk buffer requirement, %	0.0	0.0	0.0
of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer, %	0.0	0.0	0.0
Commom Equity Tier 1 available to meet buffers, %	8.6	9.2	9.5

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

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

(1000 €)

30.9.2018				
Credit and counterparty risks	Original exposure pre conversion factors	Exposure value	Risk weighted exposure amount after SME-supporting factor	Own funds requirement
Exposures to central governments or central banks	146 933.0	206 628.6	0.0	0.0
Exposures to regional governments or local authorities	198 475.4	208 373.4	0.0	0.0
Exposures to public sector entities	6 133.7	6 133.7	1 226.7	98.1
Exposures to credit institutions	28 390.6	36 987.2	12 117.3	969.4
Exposures to corporates	86 136.2	37 800.6	31 551.2	2 524.1
Retail exposures	62 801.6	17 831.6	12 064.3	965.1
Exposures secured by mortgages on immovable property	2 766 210.0	2 542 293.3	745 656.5	59 652.5
Exposures in default	1 601.9	1 539.0	1 553.3	124.3
Exposures in the form of covered bonds	40 157.1	40 157.1	4 015.7	321.3
Other items	62 369.2	62 369.2	62 369.2	4 989.5
	3 399 208.7	3 160 113.6	870 554.2	69 644.3
Operational risk			29 782.5	2 382.6
Other risks			7 621.7	609.7
All items in total	**3 399 208.7**	**3 160 113.6**	**907 958.4**	**72 636.7**

31.12.2017				
Credit and counterparty risks	Original exposure pre conversion factors	Exposure value	Risk weighted exposure amount after SME-supporting factor	Own funds requirement
Exposures to central governments or central banks	285 536.7	341 569.4	0.0	0.0
Exposures to regional governments or local authorities	107 120.8	117 387.9	0.0	0.0
Exposures to public sector entities	12 066.7	12 066.7	2 413.3	193.1
Exposures to credit institutions	74 280.3	84 612.7	25 835.0	2 066.8
Exposures to corporates	97 443.5	45 993.2	40 694.0	3 255.5
Retail exposures	57 487.6	20 767.1	13 993.8	1 119.5
Exposures secured by mortgages on immovable property	2 338 432.0	2 179 657.6	647 467.1	51 797.4
Exposures in default	2 762.4	2 372.2	2 394.9	191.6
Exposures in the form of covered bonds	33 650.7	33 650.7	3 365.1	269.2
Other items	63 157.8	63 157.8	63 157.8	5 052.6
	3 071 938.6	2 901 235.4	799 321.0	63 945.7
Operational risk			29 782.5	2 382.6
Other risks			7 672.1	613.8
All items in total	**3 071 938.6**	**2 901 235.4**	**836 775.6**	**66 942.0**

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

5. Contingent liabilities and other off-balance sheet commitments

(1000 €)	30.9.2018	31.12.2017	30.9.2017
Commitments given on behalf of a customer for the benefit of a third party			
Guarantees and other liabilities	2 181.9	2 181.9	2 181.9
Irrevocable commitments given on behalf of a customer			
Granted but unclaimed loans	396 048.5	275 063.9	314 865.2
Purchase commitments of housing units	2 165.6	2 875.1	0.0
Total	400 396.0	280 120.8	317 047.1

6. Fair values of financial instruments

(1000 €)		30.9.2018	31.12.2017	30.9.2017
Financial assets	Fair value determination principle	Fair value	Fair value	Fair value
Debt securities eligible for refinancing with central banks	A	210 969.9	284 718.7	275 213.9
Debt securities	A	101 365.3	0.0	0.0
Derivative contracts	B	437.8	258.9	186.1
Total		312 773.1	284 977.6	275 400.0
Financial liabilities				
Derivative contracts	B	5 701.6	6 944.6	6 389.3

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

Fair value determination principles:

A: Quoted price on an active market

B: Verifiable price, other than quoted

C: Unverifiable market price

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

7. Related party information

Hypo Group’s related parties include its subsidiary, members of the Board of Directors and the Supervisory Board, CEO and debuty to the CEO, members of the Management Group and their immediate family. In addition, related parties include The Mortgage Society of Finland’s pension fund and joint operations. Those related party transactions that have not been eliminated in the consolidated financial statements are presented.

The Mortgage Society of Finland sold one apartment to Department A of Hypo´s pension fund in June 2018. Trade was executed at market value 0,4 million EUR estimated by an external and independent real estate broker. Subsidiary Suomen Asuntohypopankki Oy has granted an absolute guarantee for its´ parent, The Mortgage Society of Finland. Guarantee of EUR 98 million relates to mortgages originated by the Mortgage Society of Finland.

There have been no material changes in the related party transactions since 31 December 2017.

8. IFRS 9 expected credit losses by stage

(1000 €)	Net book value	Expected credit loss allowance	Net book value	Expected credit loss allowance
	1 Jan 2018	1 Jan 2018	30 Sep 2018	30 Sep 2018
Receivables from the public and public sector entities				
Level 1, performing loans, no significant increase in credit risk	2 203 965.7	21.0	2 504 820.4	25.3
Level 2, performing loans with a significant icrease in credit risk	5 600.4	3.0	5 365.4	44.2
Level 3, non-performing loans	3 007.4	309.6	2 122.5	296.6
Total	**2 212 573.5**	**333.6**	**2 512 308.4**	**366.0**
Debt instruments, FVOCI				
Level 1, performing loans, no significant increase in credit risk	213 488.7	25.3	272 945.5	16.6
Other assets, trade receivables				
Level 1, performing loans, no significant increase in credit risk	288.5	0.0	677.9	0.0
Off-balance sheet commitments; granted but undrawn loans				
Level 1, performing loans, no significant increase in credit risk	275 063.9	0.0	396 048.5	0.2

There were no significant ECL-level transitions and new loans were originated to level one.

(1000 €)	Net expected credit losses with P&L impact	Net expected credit losses with P&L impact
	7-9/2018	1–9/2018
Receivables from the public and public sector entities		
Level 1, performing loans, no significant increase in credit risk	-4.6	-4.3
Level 2, performing loans with a significant icrease in credit risk	-0.9	-41.1
Level 3, non-performing loans	6.3	13.0
Total	**0.8**	**-32.4**
Debt instruments, FVOCI		
Level 1, performing loans, no significant increase in credit risk	0.0	8.7
Other assets, trade receivables		
Level 1, performing loans, no significant increase in credit risk	0.0	0.0
Off-balance sheet commitments; granted but undrawn loans		
Level 1, performing loans, no significant increase in credit risk	-0.1	-0.2

9. Income distribution

Applying IFRS 15 on 1 January 2018 did not give rise to any adjustments to the income statement, balance sheet, statement of changes in equity or cash flow statement for the comparative period 1 January – 30 September 2017. The Group applies IFRS 15 retrospectively.

IFRS 15 applies to lending fee income such as entry fees, loan servicing fees and other service fees. In addition, management and service fees from land trustee services, fees from so called umbrella agreements and fees from Hypo's credit card business are recognised according to IFRS 15.

Income from financial instruments is recognised in accordance with IFRS 9 effective interest method. Rental income from investment properties is recorded in accordance with IAS 17.

Group's total income
(1000 €)

	7–9/2018	**7–9/2017**	**1–9/2018**	**1–9/2017**	**2017**
Interest income	6 070.4	5 426.7	17 479.7	15 091.5	20 414.6
Interest expense	-2 865.2	-3 097.9	-8 499.3	-8 811.9	-11 423.4
Net interest income	3 205.2	2 328.8	8 980.4	6 279.6	8 991.2
Net fee income					
from lending operations	529.1	428.6	1 665.7	1 520.8	1 910.3
from land trustee services	357.3	288.9	990.2	910.6	1 262.5
from other operations	84.7	89.5	252.8	259.0	351.9
Total net fee income	971.1	807.1	2 908.7	2 690.4	3 524.7
Net income from treasury operations	459.0	426.3	449.6	1 742.7	2 143.9
Net income from investment properties	599.5	543.5	1 777.0	1 560.6	2 327.6
Capital gains on investment properties	14.2	2.7	166.2	589.6	596.5
Other income	-9.8	6.7	-17.2	155.6	82.4
Non-interest income	1 062.9	979.3	2 375.7	4 048.5	5 150.4
Total income	5 239.2	4 115.2	14 264.8	13 018.4	17 666.3

10. Information concerning asset encumbrance

30 September 2018

(1000 €)	Book value of encumbered assets	Fair value of encumbered assets	Book value of unencumbered assets	Fair value of unencumbered assets
A - Assets	1 279 614	1 279 614	1 719 095	1 719 095
Equity instruments			132	132
Debt securities	51 491	51 491	261 245	261 245
Other assets, including lending	1 228 123	1 228 123	1 457 718	1 457 718

B - Collateral received

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

	Liabilities associated with encumbered assets	Encumbered assets
C - Encumbered assets and associated liabilities		
Book value of selected financial liabilities	79 357	116 319
Debt securities issued to the public	903 958	1 157 945
Derivative contracts		5 351
Total	983 315	1 279 614

D - Information on the importance of encumbrance

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

Encumbered assets totaled EUR 1,279.6 million, out of which of covered bonds were EUR 1,225.0 million on 30 September 2018. Unencumbered debt securities that are tradable on the secondary market and eligible as ECB collateral and that can be used as collateral in monetary policy operations totaled EUR 261.2 million on 30 September 2018. EUR 1,028.9 million of unencumbered loans may be used as collateral for covered bonds.

31 December 2017

(1000 €)	Book value of encumbered assets	Fair value of encumbered assets	Book value of unencumbered assets	Fair value of unencumbered assets
A - Assets	955 287	955 287	1 837 248	1 837 248
Equity instruments			132	132
Debt securities	54 199	54 199	231 021	231 021
Other assets, including	901 088	901 088	1 606 095	1 606 095

B - Collateral received

Nothing to report, as the Group has not received collateral that it would have pledged further or that it could pledge further.

	Liabilities associated with encumbered assets	Encumbered assets
C - Encumbered assets and associated liabilities		
Book value of selected financial liabilities	79 600	100 827
Debt securities issued to the public	653 446	849 597
Derivative contracts		4 863
Total	733 045	955 287

D - Information on the importance of encumbrance

Provided figures are based on the situation as at 31 December 2017. The amount of assets reported under items A and C above does not include excess collateral except for covered bonds. Group's encumbered assets consist of debt securities, cover asset pool and cash collateral for derivative contracts that are tradable on the secondary market and eligible as ECB collateral and that have been pledged against a loan from the central bank. The Group's encumbered assets increased due to issuance of covered bonds. Encumbered assets totaled EUR 955.3 million, out of which of covered bonds were EUR 900.0 million. Unencumbered debt securities that are tradable on the secondary market and eligible as ECB collateral and that can be used as collateral in monetary policy operations totaled EUR 231.0 on 31 December 2017. EUR 1,079.0 million of unencumbered loans may be used as collateral for covered bonds.

Sources:
Loans and deposits; Bank of Finland
Housing prices; Statistics Finland

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

Definitions of Alternative Performance Measures:

Operating profit/profit before appropriations and taxes, milj. €

Interest income + income from equity investments + fee income + net income from financial assets at fair value through other comprehensive income/net income from available-for-sale financial assets + net income from currency operations and securities trading + net income from hedge accounting + income from investment properties + other operating income – (administrative expenses + depreciation and impairment losses on tangible and intangible assets + other operating expenses+ expected credit losses/impairment losses on loans and other commitments)

Return on equity % (ROE)

$$\frac{\text{Operating profit - income taxes}}{\text{Equity + accumulated appropriations less deferred tax liabilities (average total at the beginning and end of the year)}} \times 100$$

Cost-to-income ratio, %

$$\frac{\text{Administrative expenses + depreciation and impairment losses on tangible and intangible assets + other operating expenses}}{\text{Net interest income + income from equity investments + net fee and commission income + net income from currency operations and securities trading + net income from financial assets at fair value through other comprehensive income/net income from available-for-sale financial assets + net income from hedge accounting + net income from investment properties + other operating income}} \times 100$$

LTV-ratio (Loan to Value, average), %

$$\frac{\text{Receivables from the public and public sector entities}}{\text{Fair value of collateral received against the receivables from the public and public sector entities}} \times 100$$

Loan-to-value ratio is calculated by dividing the outstanding loan balance with the fair value of the total amount of the collaterals allocated to the loan. Only housing and residential property collaterals are taken into account. The average LTV ratio is the weighted average of individual loan-to-value ratios.

Expected credit losses, %

$$\frac{\text{Expected credit losses from loans to the public in P\&L}}{\text{Lending to the public at the end of the period}} \times 100$$

Loans/deposits %

$$\frac{\text{Receivables from the public and public sector entities}}{\text{Deposits}} \times 100$$

Deposits out of total funding, %

$$\frac{\text{Deposits}}{\text{Total funding}} \times 100$$

Total funding includes liabilities to credit institutions, liabilities to the public and public sector entities, debt securities issued to the public as well as subordinated liabilities.

Long-term funding out of total funding, %

$$\frac{\text{Total funding with a remaining maturity of 12 months}}{\text{Total funding}} \times 100$$

Total funding includes liabilities to credit institutions, liabilities to the public and public sector entities, debt securities issued to the public as well as subordinated liabilities.

Short-term liquidity, months

Coverage of short-term liquidity to wholesale funding cash flows (difference of days multiplied with 356 (days in a year)multiplied with 12 (months in a year))

Average number of personnel

Number of personnel includes those in employment relationship during the financial year (excl. The CEO and the COO). Average number of personnel is calculated by dividing the sum of the number of permanent full-time personnel at the end of each month by the total number of months.

Definitions of Key Financial Indicators set out in EU's Capital Requirements Regulation:

Non-performing assets, % of the loan portfolio

$$\frac{\text{Receivables from the public and public sector entities deemed unlikely to be paid + receivables past due and unpaid over 90 days}}{\text{Receivables from the public and public sector entities}} \times 100$$

Non-performing assets are presented in accordance with the EU's Capital Requirements Regulation (575/2013).

LCR-ratio, %

$$\frac{\text{Liquid assets}}{\text{Outflow of liquidity – Inflow of liquidity (within 30 days)}} \times 100$$

LCR-ratio is calculated in accordance with the EU's Capital Requirement Regulation CRR (EU 575/2013).

Leverage Ratio, %

$$\frac{\text{Tier 1 Capital}}{\text{Total exposure}} \times 100$$

Leverage Ratio, % is calculated in accordance with the EU's Capital Requirement Regulation CRR (EU 575/2013).

Common Equity Tier 1 (CET1) ratio %

$$\frac{\text{Common Equity Tier 1, CET1}}{\text{Total risk}} \times 100$$

The capital requirement for total risk is calculated using the standard method. The capital requirement for operational risk is calculated using the basic method.

Description of Alternative Performance Measures:

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

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

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

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

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

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

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

Short-term liquidity, months, describes the coverage of short-term liquidity to wholesale funding cash flows.

Average number of personnel describes the personnel resources available.

Expected credit losses, % compares expected credit losses in P&L from the loan portfolio to the loan portfolio in total. The smaller the ratio the less credit losses are expected in the future.

This is an unofficial English language translation of the original Finnish language release (Osavuosikatsaus) and it has not been approved by any competent authority. Should there be any discrepancies between the Finnish language and the English language versions, the Finnish version shall prevail.

Opinion on the review of the 1 January – 30 September 2018 Interim Report of the Mortgage Society of Finland (Translation)

Introduction

We have performed a review of the Mortgage Society of Finland's balance sheet of 30 September 2018, income statement, statement of changes in equity and the cash flow statement for the nine months period ended, as well as the summary of significant accounting policies and other Notes. The Board of Directors and CEO are responsible for preparing the Interim Report and ensuring it provides accurate and sufficient information in accordance with the International Financial Reporting Standards (IFRS) approved in the EU, and other statutes and regulations concerning the preparation of the Interim Report in effect in Finland. Based on the review we have performed, we are issuing an opinion on the Interim Report in accordance with the Securities Act Section 2, Article 5a(7).

Scope of review

The review was performed in accordance with the International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial information consists of making enquiries, primarily with persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially narrower in scope than an audit conducted in accordance with international standards and recommendations on auditing, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Interim Report is not prepared in accordance with the International Financial Reporting Standards (IFRS) approved in the EU and other statutes and regulations concerning the preparation of the Interim Report in effect in Finland. The Report provides accurate and sufficient information on the financial standing of the entity on 30 September 2018 and the result and cash flows of its operations for the nine months period ended.

Helsinki 31 October 2018

PricewaterhouseCoopers Oy
Authorised Public Accountants

Jukka Paunonen
Authorised Public Accountant (KHT)