THE MORTGAGE SOCIETY OF FINLAND

Interim Report

1 January–31 March 2020

The Interim Report for the period of 1 January to 30 June 2020 will be published on 31 August 2020

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 2019 and Stock Exchange Releases published during period 1 January to 31 March 2020.

The figures in the tables in the Report 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 29 April 2020.

Interim Report has been reviewed yet it has not been audited.

Hypo Group's Interim Report can be accessed at http://www.hypo.fi/en/

Hypo Group's January–March 2020

The home finance specialist Hypo Group's net interest income and capital adequacy strengthened.

CEO Ari Pauna:

"Focusing on low risk housing collateralized lending in urbanising Finland is yielding profits even during the corona crisis. Hypo Group's net interest income and net fee and commission income grew. CET 1 Capital adequacy continued to strengthen. Conservative provisions for future charges have been made and impairment losses remained at low level. Liquidity remained strong."

- Operating profit was EUR 1.0 million (EUR 1.4 million 1–3/2019)
- Net interest income increased to EUR 3.7 million (EUR 3.4 million 1–3/2019)
- Non-performing loans remained low at 0.26% of loan book (0.10% 31 December 2019)
- Expected credit losses were 0.01% of the loan book
- Net fee and commission income was EUR 0.8 million (EUR 0.8 million 1–3/2019)
- Other income totaled EUR 0.4 million (EUR 0.9 million 1–3/2019) including valuation originated net income from securities trading EUR -0.6 million (EUR 0.1 million 1–3/2019)
- Total costs were EUR 3.9 million (EUR 3.6 million 1–3/2019)
- Common Equity Tier 1 (CET1) ratio, calculated with standard and basic methods, was 13.6% (13.4% on 31 December 2019)
- Liquidity Coverage Ratio (LCR) was 142.6 % (163.8 %).

GROUP'S KEY FIGURES

(1000 €)	**1–3/2020**	**1–3/2019**	**2019**
Net interest income	3 711	3 393	14 452
Net fee and commission income	841	784	3 562
Total other income	367	916	2 689
Total expenses	-3 915	-3 644	-12 296
Operating profit	1 004	1 448	8 407
Receivables from the public and public sector entities	2 534 728	2 613 754	2 586 147
Deposits	1 509 387	1 661 714	1 628 793
Balance sheet total	3 118 835	3 375 639	3 230 657
Return on equity % (ROE)	2.4	3.8	5.5
Common Equity Tier 1 (CET1) ratio	13.6	12.2	13.4
Cost-to-income ratio,%	79.8	71.6	59.6
Non-performing assets, % of the loan portfolio	0.26	0.09	0.10
LTV-ratio, % / Loan to Value, average, %	35.2	35.6	35.3
Loans / deposits, %	167.9	157.3	158.8
Liquidity Coverage Ratio (LCR), %	142.6	138.8	163.8

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. Nearly 28,000 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 coronavirus pandemic hit the global economic growth and trade in February–March 2020. The Purchasing Manager Index declined significantly in February 2020. In addition, the stock markets turned around in mid-February when the pandemic started to spread globally. Non-financial sector companies’ stock prices declined by 19% and banks’ 30% in the euro area on 21 February–11 March. The Governing Council of ECB decided to hold the key interest rates unchanged in its meeting in March. The long-term risk-free interest rates declined from the turn of the year. 12 months Euribor rate fell until mid-March after which it rose to -0.17% by the end of the month.

The Finnish economy continued its moderate growth still in the beginning of 2020. Yet, consumer confidence decreased substantially in March, regardless of the fact that the index was calculated based on the information collected before the government restrictions came into effect.

In January housing prices rose in growth centres but declined in depopulated areas. In February the prices turned to decline also in the metropolitan area, which strengthened the falling trend countrywide. At that point, the total transaction volumes were high in the metropolitan area whereas rural areas performed weaker. Housing loan stock growth was 2.8% in the end of February and new mortgage loans were withdrawn actively. The average interest rate on new mortgage loans was 0.89%.

Construction output and the number of approved new building permits fell between November 2019 and January 2020, which affects the first quarter of 2020. Rents continued to rise especially in the metropolitan area and were 1.3% higher than in the corresponding period previous year.

The employment rate rose in 2019 by 0.6 percentage points and positive trend continued in the beginning of 2020. In February the number of employed persons had grown by 20,000 from a year ago. Correspondingly, the number of unemployed fell by 13,000 in the same time. The employment rate was 71.3% and the unemployment rate 6.9%. Households' real disposable income rose in the last quarter of 2019 by 1.6% year-over-year.

RESULTS AND PROFITABILITY

January–March 2020

Hypo Group's operating profit was EUR 1.0 million (EUR 1.4 million for January–March 2019). Income totaled EUR 4.9 million (EUR 5.1 million) and expenses EUR 3.9 million (EUR 3.6 million). An increasing amount of operating profit originated from core business operations. Net interest income continued to grow to EUR 3.7 million (EUR 3.4 million) due to lower funding costs. Net fee and commission income totaled EUR 0.8 million (EUR 0.8 million).

Net income from investment properties (housing units and residential land) amounted to EUR 0.8 million (EUR 0.8 million), of which sale profit from investment properties were EUR 0.1 million (EUR 0.1 million).

Group's cost-to-income ratio was 79.8% (71.6%). The increase was mainly due to the growth of administrative expenses. The largest expense item was the yearly contribution to the Single Resolution Fund made for the Financial Stability Authority and fully expensed during the financial period.

Group's other comprehensive income EUR 0.3 million (EUR 1.7 million) includes EUR 0.8 million (EUR 1.2 million) profit for the financial period as well as the change in the fair value reserve EUR -0.1 million (EUR 0.2 million) and the revaluation of defined benefit pension plans EUR -0.3 million (EUR 0.4 million).

PERSONNEL AND DEVELOPMENT

On 31 March 2020, the number of permanent personnel was 56 (53 on 31 December 2019). These figures do not include the CEO and the deputy to the CEO.

ASSETS AND LIABILITIES

Lending

The loan portfolio decreased to EUR 2,534.7 million (EUR 2,586.1 million on 31 December 2019) due to active management measures taken.

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 remained strong and was 35.2% (35.3% on 31 December 2019).

Amount of non-performing loans remained low at EUR 6.5 million (EUR 2.7 million on 31 December 2019), representing 0.26% of the loan portfolio (0.10%). The increase was mainly due to one single exposure, which became non-performing during the financial period. There are no final credit losses expected from this exposure.

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 474.8 million (EUR 539.1 million on 31 December 2019), which corresponds to 15.2% (16.7%) of the total assets. The cash and cash equivalents which totaled EUR 471.8 million consisted of assets distributed widely across various counterparties, and of debt securities tradable on the secondary market, of which 100.0% (100.0%) had a credit rating of at least ‘AA-‘ or were of equivalent credit quality and 100.0% (94.7%) were ECB repo eligible. Liquidity covers wholesale funding cash flows for the following 31 months. The Liquidity Coverage Ratio was 142.6% (163.8%).

The defined benefit plans surplus of EUR 4.1 million (EUR 4.6 million on 31 December 2019) 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 5.1 million (EUR 5.0 million on 31 December 2019). Group’s properties carry housing company loans for EUR 0.9 million (EUR 1.1 million 31.12.2019).

Derivative contracts

The balance sheet value of derivative receivables was EUR 23.7 million on 31 March 2020 (EUR 19.4 million on 31 December 2019), and the value of liabilities was EUR 8.7 million (EUR 7.6 million).

Deposits and other funding

Deposits decreased to EUR 1,509.4 million (EUR 1,628.8 million on 31 December 2019). The share of deposits accounted for 51.6% (53.6%) of total funding.

The share of long-term funding of total funding was 47.2% on 31 March 2020 (46.5%).

The total funding at the end of the financial period was EUR 2,924.5 million (EUR 3,041.1 million).

RISK TOLERANCE AND RISK MANAGEMENT

At the end of the financial period, Hypo Group’s equity amounted to EUR 130.0 million (EUR 129.8 million on 31 December 2019). The changes in equity during the period are presented in Group’s statement of equity attached to this Report.

Group’s CET1 capital in relation to risk-weighted assets on 31 March 2020 was 13.6% (13.4% on 31 December 2019). Profit for the financial period is included in the Common Equity Tier 1 capital, based on the statement by the auditors. In measuring credit risk, the standardized approach is used. Group’s own funds are quantitatively and qualitatively on an adequate level in relation to Group’s current and future business. At the end of the financial period, Group’s Leverage Ratio was 3.8% (3.7%).

The Finnish Financial Supervisory Authority (The Finnish FSA) 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 entered into force on 1 July 2019. Due to the ongoing coronavirus pandemic, The Finnish FSA has made a decision on 6 April 2020 to remove the additional capital requirement. The capital adequacy figures presented in this Report are from 31 March 2020 and still include the additional capital requirement.

The Finnish FSA has also set a discretionary additional capital requirement of 1.25 percent (Pillar 2 requirement) to the Hypo Group. The requirement is to be met with Common Equity Tier 1 capital (CET 1). The requirement entered into force on 31 December 2019 and it will remain in force until further notice, however not longer than until 31 December 2022. The decision has been made as a normal part of the Group's continuous supervisory review.

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 – 31 March 2020, no significant changes have occurred in the outlook or financial standing of the Mortgage Society of Finland or its Group.

To further strengthen its liquidity position in the unusual state of markets, the Mortgage Society of Finland issued a retained covered bond of 150 million euros on 23 April 2020. It can be used as a collateral in central bank funding if needed.

FUTURE OUTLOOK

The coronavirus and the measures taken to prevent the disease from spreading impact the Finnish economy direly. GDP subtracts significantly and the labor market weakens. Housing market volume and prices decline also in the larger cities. Housing loan demand diminishes and pricing for riskier clients increase. Urbanization will take a pause but will continue after the crisis. Ability to recover varies widely across different areas in Finland with the Helsinki region among the strongest. Newbuilding declines which will support housing prices in the years following the crisis.

Hypo Group focuses on renewal of its core systems and on strengthening its core business and expects the share of profit made by it to continue to rise following the increase of net interest and net fee income. Capital adequacy continues to strengthen.

The operating profit for 2020 is expected to be slightly smaller than in 2019. The expectation contains uncertainties due to the development in economy and interest rates.

Helsinki, 29 April 2020

The Board

CONSOLIDATED INCOME STATEMENT, IFRS

(1000 €)	**1-3/2020**	**1-3/2019**	**2019**
Interest income	6 585,1	6 131,1	26 462,7
Interest expenses	-2 874,0	-2 738,6	-12 010,8
NET INTEREST INCOME	3 711,1	3 392,5	14 451,9
Fee and commission income	853,6	796,1	3 615,7
Fee and commission expenses	-12,9	-12,5	-53,3
Net income from securities and foreign currency transactions			
Net income from securities trading	-607,2	73,1	-190,0
Net income from financial assets at fair value through other comprehensive income	0,0	118,9	4,9
Net income from hedge accounting	165,5	-55,0	73,9
Net income from investment properties	825,9	788,8	2 850,1
Other operating income	-17,3	-9,8	-50,3
Administrative expenses			
Personnel costs			
Wages and salaries	-1 463,2	-1 297,0	-5 180,2
Other personnel related costs			
Pension costs	-249,2	-220,5	-938,6
Other personnel related costs	-44,6	-19,6	-126,3
Other administrative expenses	-736,7	-740,7	-3 206,4
Total administrative expenses	-2 493,6	-2 277,8	-9 451,5
Depreciation and impairment losses on tangible and intangible assets	-217,4	-180,7	-856,1
Other operating expenses	-1 213,9	-1 187,2	-2 027,5
Net gains/losses on derecognition of financial assets measured at amortised cost	10,3	0,8	22,2
Net gains/losses on derecognition of other financial assets	0,0	0,7	16,6
OPERATING PROFIT	1 004,2	1 447,9	8 406,7
Income taxes	-225,3	-293,0	-1 523,3
OPERATING PROFIT AFTER TAX	778,9	1 154,9	6 883,4
PROFIT FOR THE PERIOD	778,9	1 154,9	6 883,4

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, IFRS

(1000 €)	**1-3/2020**	**1-3/2019**	**2019**
Profit for the period	778,9	1 154,9	6 883,4
Other comprehensive income items			
Items that may be reclassified subsequently to income statement			
Change in fair value reserve			
Financial assets at fair value through other comprehensive income	-145,2	196,6	835,1
	-145,2	196,6	835,1
Items that may not be reclassified subsequently to the income statement			
Revaluation of defined benefit pension plans	-347,3	386,4	634,8
	-347,3	386,4	634,8
Total other comprehensive income items	-492,5	583,0	1 469,9
COMPREHENSIVE INCOME FOR THE PERIOD	**286,4**	**1 737,9**	**8 353,3**

CONSOLIDATED BALANCE SHEET, IFRS

(1000 €)	31.3.2020	31.12.2019	31.3.2019
ASSETS			
Cash	200 900,0	244 100,0	401 500,0
Debt securities eligible for refinancing with central banks			
Other	262 160,3	267 107,0	244 801,8
Receivables from credit institutions			
Repayable on demand	8 693,3	9 820,9	6 500,0
Other	30,6	29,8	60,4
	8 723,9	9 850,7	6 560,5
Receivables from the public and public sector entities			
Other than those repayable on demand	2 534 727,6	2 586 147,0	2 613 753,6
Debt securities			
From public sector entities	0,0	15 006,4	10 003,9
	0,0	15 006,4	10 003,9
Shares and holdings	132,4	132,4	132,4
Derivative financial instruments	23 657,4	19 351,9	12 387,5
Intangible assets			
Other long-term expenditure	4 092,0	3 636,7	2 801,6
Tangible assets			
Investment properties and shares and holdings in investment properties	59 019,2	61 564,4	60 023,0
Other properties and shares and holdings in real estate corporations	642,7	644,5	841,9
Other tangible assets	255,3	242,2	237,8
	59 917,2	62 451,1	61 102,7
Other assets	15 442,5	15 134,3	14 306,7
Accrued income and advances paid	9 081,8	7 739,3	8 216,5
Deferred tax receivables	0,0	0,0	71,8
TOTAL ASSETS	**3 118 835,1**	**3 230 656,9**	**3 375 639,0**

CONSOLIDATED BALANCE SHEET, IFRS

(1000 €)	31.3.2020	31.12.2019	31.3.2019
LIABILITIES			
Liabilities to credit institutions			
Central banks	80 000,0	80 000,0	80 000,0
Credit institutions			
Other than those repayable on demand	5 552,2	6 329,2	9 324,8
	85 552,2	86 329,2	89 324,8
Liabilities to the public and public sector entities			
Deposits			
Repayable on demand	799 985,5	829 457,9	822 894,9
Other	709 401,0	799 335,3	838 819,0
	1 509 386,5	1 628 793,2	1 661 714,0
Other liabilities			
Other than those repayable on demand	13 532,4	14 294,1	16 155,9
	1 522 918,9	1 643 087,3	1 677 869,9
Debt securities issued to the public			
Bonds	1 279 528,2	1 275 217,9	1 267 905,0
Other	36 488,1	36 483,2	170 973,4
	1 316 016,3	1 311 701,1	1 438 878,5
Derivative financial instruments	8 749,6	7 598,5	5 907,1
Other liabilities			
Other liabilities	38 125,8	35 004,0	23 056,1
Deferred income and advances received	7 822,7	7 445,2	7 574,5
Deferred tax liabilities	9 601,1	9 729,3	9 881,3
EQUITY			
Basic capital	5 000,0	5 000,0	5 000,0
Other restricted reserves			
Reserve fund	28 893,0	25 490,5	25 490,5
Fair value reserve			
From fair value recognition	609,8	755,0	116,4
Defined benefit pension plans	2 492,2	2 839,6	2 591,2
Unrestricted reserves			
Other reserves	22 923,5	22 923,5	22 923,5
Retained earnings	69 351,2	65 870,4	65 870,4
Profit for the period	778,9	6 883,4	1 154,9
	130 048,6	129 762,3	123 146,9
TOTAL LIABILITIES	**3 118 835,1**	**3 230 656,9**	**3 375 639,0**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(1000 €)	Basic capital	Reserve fund	Fair value reserve	Other reserves	Retained earnings	Total
Equity 1 January 2019	5 000,0	22 810,7	2 124,6	22 923,5	68 550,2	121 409,0
Profit for the period					1 154,9	1 154,9
Profit use of funds		2 679,9			-2 679,9	0,0
Financial assets at fair value through other comprehensive income						
Change in fair value			364,8			364,8
Amount transferred to the income statement			-118,9			-118,9
Change in deferred taxes			-49,3			-49,3
Revaluation of defined benefit plans						
Actuarial gains / losses			483,0			483,0
Change in deferred taxes			-96,6			-96,6
Total other comprehensive income	0,0	2 679,9	583,0	0,0	-2 679,9	583,0
Equity 31 March 2019	**5 000,0**	**25 490,5**	**2 707,6**	**22 923,5**	**67 025,3**	**123 146,9**
Equity 1 January 2020	5 000,0	25 490,5	3 594,5	22 923,5	72 753,8	129 762,3
Profit for the period					778,9	778,9
Other comprehensive income						
Profit use of funds		3 402,5			-3 402,5	0,0
Financial assets at fair value through other						
Change in fair value			-176,6			-176,6
Amount transferred to the income statement			-4,9			-4,9
Change in deferred taxes			36,3			36,3
Revaluation of defined benefit plans						
Actuarial gains / losses			-434,2			-434,2
Change in deferred taxes			86,8			86,8
Total other comprehensive income	0,0	3 402,5	-492,5	0,0	-3 402,5	-492,5
Equity 31 March 2020	**5 000,0**	**28 893,0**	**3 102,0**	**22 923,5**	**70 130,1**	**130 048,6**

CONSOLIDATED CASH FLOW STATEMENT

(1000 €)	1-3/2020	1-3/2019
Cash flow from operating activities		
Interest received	5 235,7	3 333,4
Interest paid	-3 381,3	-1 827,3
Fee income	872,8	1 158,1
Fee expenses	-12,9	-12,5
Net income from securities and foreign currency transactions	-607,2	73,1
Net income from financial assets at fair value through other comprehensive income	0,0	118,9
Net income from hedge accounting	165,5	-55,0
Net income from investment properties	948,2	326,6
Other operating income	-17,3	-9,8
Administrative expenses	-1 307,3	-2 618,9
Other operating expenses	-1 217,8	-1 193,8
Expected credit losses	10,6	1,9
Income taxes	-868,8	-1 289,4
Total net cash flow from operating activities	**-179,9**	**-1 994,7**
Operating assets increase (-) / decrease (+)		
Receivables from customers (lending)	50 932,0	-27 966,4
Collateral, derivatives	2 246,8	7 550,1
Investment properties	2 272,4	271,9
Operating assets increase (-) / decrease (+) total	**55 451,2**	**-20 144,4**
Operating liabilities increase (+) / decrease (-)		
Liabilities to the public and public sector organisations (deposits)	-119 406,6	-56 451,7
Operating liabilities increase (+) / decrease (-) total	-119 406,6	-56 451,7
NET CASH FLOWS ACCRUED FROM OPERATING ACTIVITIES	**-64 135,3**	**-78 590,8**
Cash flows from investments		
Change in fixed assets	-684,0	-171,6
NET CASH FLOWS ACCRUED FROM INVESTMENTS	**-684,0**	**-171,6**
Cash flows from financing		
Bank loans, new withdrawals	11,6	27,4
Bank loans, repayments	-788,6	-804,1
Other liabilities, increase (+) / decrease (-)	-769,4	-767,4
Bonds, new issues *	6 386,3	309 788,0
Bonds, repayments *	-4 305,4	-7 825,2
Certificates on deposit, new issues	5 025,8	83 678,6
Certificates on deposit, repayments	-5 020,9	-81 140,8
Subordinated liabilities, new withdrawals	0,0	0,0
Subordinated liabilities, repayments	0,0	0,0
NET CASH FLOWS ACCRUED FROM FINANCING	**539,3**	**302 956,6**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**-64 280,0**	**224 194,1**
Cash and cash equivalents at the beginning of the period	**536 064,1**	**438 672,0**
Cash and cash equivalents at the end of the period	**471 784,2**	**662 866,1**
CHANGE IN CASH AND CASH EQUIVALENTS	**-64 280,0**	**224 194,1**

** The cash flow statement from the reference period has been revised by removing the deferred non-cash flow items from the cash flows regarding hedge accounting. The revision had no effect on the income, balance sheet or comprehensive income of the Group.*

NOTES

1. Key accounting policies

This Interim Report applies the same IFRS accounting policies as the Group's Financial Statements on 31 December 2019. 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 2020.

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 2019 and Stock Exchange Releases published during 1 January to 31 March 2020. The figures in the tables in the Report 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 29 April 2020. The Interim Report 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. 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 31 March 2020. Equity instruments have not been issued nor repaid during the period from 1 January to 31 March 2020.

3. Capital Adequacy Information

Hypo Group's own funds and capital ratios

(1000 €)	31.3.2020	31.12.2019
Common Equity Tier 1 (CET1) capital: Instruments and reserves		
Capital instruments and the related share premium accounts	5 000,0	5 000,0
of which: Basic capital	5 000,0	5 000,0
Retained earnings	69 351,2	65 870,4
Accumulated other comprehensive income and other reserves	54 918,6	52 008,6
Independently reviewed interim profits net of any foreseeable charge or dividend	778,9	6 883,4
Common Equity Tier 1 (CET1) capital before regulatory adjustments	130 048,6	129 762,3
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets	-3 273,6	-2 909,4
Deferred tax assets that rely on future profitability	0,0	0,0
Value adjustments due to the requirements for prudent valuation	-299,5	-314,1
Defined-benefit pension fund assets	-5 795,3	-6 510,3
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-9 368,4	-9 733,7
Common Equity Tier 1 (CET1) capital	120 680,2	120 028,6
Additional Tier 1 (AT1) capital	0,0	0,0
Tier 2 (T2) capital	0,0	0,0
Total capital (TC = T1 + T2)	120 680,2	120 028,6
Total risk weighted assets	889 993,3	896 212,8
Capital ratios and buffers		
Common Equity Tier 1 (CET1) as a percentage of total risk exposure amount	13,6	13,4
Tier 1 (T1) as a percentage of total risk exposure amount	13,6	13,4
Total capital as a percentage of total risk exposure amount	13,6	13,4
Institution specific buffer requirement, %	8,0	8,0
of which: capital conservation buffer requirement, %	2,5	2,5
of which: countercyclical buffer requirement, %	0,0	0,0
of which: systemic risk buffer requirement, %	1,0	1,0
of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer, %	0,0	0,0
Discretionary capital add-on (Pillar 2), %	1,25	1,25
Commom Equity Tier 1 available to meet buffers, %	10,1	9,9

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 counterparty risk is calculated using the current exposure 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 €)

	31.3.2020			
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	322 013,6	378 524,7	0,0	0,0
Exposures to regional governments or local authorities	118 528,5	127 283,7	0,0	0,0
Exposures to credit institutions	56 919,9	64 203,4	22 329,6	1 786,4
Exposures to corporates	51 399,4	26 394,5	18 693,2	1 495,5
Retail exposures	61 081,1	14 557,4	9 636,4	770,9
Exposures secured by mortgages on immovable property	2 558 709,4	2 475 161,3	728 036,6	58 242,9
Exposures in default	6 093,3	2 985,7	3 041,3	243,3
Exposures in the form of covered bonds	23 460,9	23 460,9	2 346,1	187,7
Other items	62 440,8	62 440,8	62 440,8	4 995,3
	3 260 646,9	3 175 012,4	846 523,9	67 721,9
Operational risk			36 346,8	2 907,7
Other risks			7 122,6	569,8
All items in total	**3 260 646,9**	**3 175 012,4**	**889 993,3**	**71 199,5**

	31.12.2019			
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	364 618,4	421 686,8	0,0	0,0
Exposures to regional governments or local authorities	138 747,9	147 493,5	0,0	0,0
Exposures to credit institutions	53 091,9	61 075,2	16 676,0	1 334,1
Exposures to corporates	54 738,1	25 919,9	18 426,5	1 474,1
Retail exposures	61 925,5	15 075,3	10 129,7	810,4
Exposures secured by mortgages on immovable property	2 582 115,8	2 514 794,5	738 062,4	59 045,0
Exposures in default	2 412,0	2 238,3	2 290,8	183,3
Exposures in the form of covered bonds	23 451,1	23 451,1	2 345,1	187,6
Other items	65 120,0	65 120,0	65 120,0	5 209,6
	3 346 220,5	3 276 854,7	853 050,5	68 244,0
Operational risk			36 346,8	2 907,7
Other risks			6 815,5	545,2
All items in total	**3 346 220,5**	**3 276 854,7**	**896 212,8**	**71 697,0**

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).

4. Contingent liabilities and other off-balance sheet commitments

(1000 €)	31.3.2020	31.12.2019
Commitments given on behalf of a customer for the benefit of a third party		
Guarantees and other liabilities	2 181,9	2 181,9
Irrevocable commitments given on behalf of a customer		
Granted but unclaimed loans	136 728,0	110 284,1
Total	138 909,9	112 466,0

5. Fair values of financial instruments

(1000 €)		31.3.2020	31.12.2019
Financial assets	Fair value determination principle		Fair value
Debt securities eligible for refinancing with central banks	A	262 160,3	267 107,0
Debt securities	A	0,0	15 006,4
Derivative contracts	B	23 657,4	19 351,9
Total		285 817,6	301 465,3
Financial liabilities			
Derivative contracts	B	8 749,6	7 598,5

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.

6. 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 close family members of the aforementioned as well as related party entities. In addition, The Mortgage Society of Finland's pension fund and joint operations are included in related parties. Those related party transactions that have not been eliminated in the consolidated financial statements are presented.

Subsidiary Suomen Asuntohypopankki Oy has granted an absolute guarantee for its´ parent, The Mortgage Society of Finland. Guarantee of EUR 76.7 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 2019.

7. IFRS 9 expected credit losses by stage

(1000 €)	Net book value	Expected credit loss allowance	Net book value	Expected credit loss allowance
	31.3.2020	**31.3.2020**	**31.12.2019**	**31.12.2019**
Receivables from the public and public sector entities				
Level 1, performing loans, no significant increase in credit risk	2 517 323,3	14,7	2 573 585,2	20,4
Level 2, performing loans with a significant increase in credit risk	10 913,9	41,7	9 916,9	44,9
Level 3, non-performing loans	6 490,4	194,4	2 644,9	196,1
Total	**2 534 727,6**	**250,8**	**2 586 147,0**	**261,4**
Debt instruments, FVOCI				
Level 1, performing loans, no significant increase in credit risk	262 160,3	0,0	138 728,4	0,0
Other assets, trade receivables				
Level 1, performing loans, no significant increase in credit risk	344,3	0,0	369,1	0,0
Off-balance sheet commitments; granted but undrawn loans				
Level 1, performing loans, no significant increase in credit risk	136 728,0	0,7	110 284,1	0,4

During the financial period, one loan of 2,891.0 thousand euros was transferred from Level 1 to Level 3, but due to the guarantee from the Government it did not affect the expected credit losses.
There were no other significant ECL-level transitions and new loans were originated to level one.
The Forward Looking Factor (FLF) of the ECL model remained the same during the financial period. As the FLF rises, the expected credit losses are estimated to grow by 50-100%.

(1000 €)	Net expected credit losses with P&L impact	Net expected credit losses with P&L impact	Net expected credit losses with P&L impact
	1–3/2020	**1-3/2019**	**1–12/2019**
Receivables from the public and public sector entities			
Level 1, performing loans, no significant increase in credit risk	5,7	-2,1	-3,5
Level 2, performing loans with a significant increase in credit risk	3,2	8,1	3,2
Level 3, non-performing loans	1,7	-7,2	-102,9
Total	**10,6**	**-1,2**	**-103,2**
Debt instruments, FVOCI			
Level 1, performing loans, no significant increase in credit risk	0,0	-0,7	16,6
Other assets, trade receivables			
Level 1, performing loans, no significant increase in credit risk	0,0	0,0	0,0
Off-balance sheet commitments; granted but undrawn loans			
Level 1, performing loans, no significant increase in credit risk	-0,3	0,4	0,0

8. IFRS 15 Income distribution

Group's total income
(1000 €)

	1–3/2020	**1–3/2019**	**1–12/2019**
Interest income	6 585,1	6 131,1	26 462,7
Interest expense	-2 874,0	-2 738,6	-12 010,8
Net interest income	3 711,1	3 392,5	14 451,9
Net fee income			
from lending operations	415,7	376,7	1 707,4
from land trustee services	304,5	357,1	1 558,3
from other operations	120,5	49,8	296,7
Total net fee income	840,7	783,6	3 562,5
Net income from treasury operations	-441,6	137,0	-111,3
Net income from investment properties	722,9	676,3	2 708,5
Capital gains on investment properties	103,0	112,5	141,6
Other income	-17,3	-9,8	-50,3
Non-interest income	367,0	916,0	2 688,5
Total income	4 918,8	5 092,2	20 702,9

9. IFRS 16 Leases

Hypo Group as lessee (1000 €)	**1–3/2020**	**1–3/2019**	**2019**
Right-of-use assets			
Depreciation - IT	9,0	9,0	35,9
Depreciation - Apartments	50,2	40,2	163,1
Carrying amount - IT	62,8	62,8	35,9
Carrying amount - Apartments	351,7	281,3	325,4
Lease liabilities			
Interest expense	3,3	2,8	8,1
Carrying amounts sorted by remaining maturity			
Non-fixed-term leases	416,7	345,4	363,9
Relief options			
Expenses from leases of low-value assets	1,3	1,3	5,3

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

Hypo Group as a lessor (1000 €)	**1–3/2020**	**1–3/2019**	**2019**
Operative leases			
Lease income	610,9	584,1	2 369,4
Undiscounted lease payments to be received			
1 year	914,9	884,6	1 006,3
2 year	632,9	584,3	660,9
3 year	545,8	560,3	545,8
4 year	277,0	560,3	350,3
5 year	252,5	291,5	252,5
>5 years	7 531,2	21 362,5	7 594,0

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

10. Information concerning asset encumbrance

31 March 2020

(1000 €)	Book value of encumbered assets	Fair value of encumbered assets	Book value of unencumbered assets	Fair value of unencumbered assets
A - Assets	1 708 230	1 708 230	1 410 605	1 410 605
Equity instruments			132	132
Debt securities	49 188	49 188	213 772	213 772
Other assets, including lending	1 659 043	1 659 043	1 196 700	1 196 700

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	78 870	94 698
Debt securities issued to the public	1 282 220	1 599 347
Derivative contracts	8 309	14 185
Total	1 369 399	1 708 230

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 1,708.2 million, out of which of covered bonds were EUR 1,650.1 million on 31 March 2020. 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 213.7 million on 31 March 2020. EUR 624.4 million of unencumbered loans may be used as collateral for covered bonds.

31 December 2019

(1000 €)	Book value of encumbered assets	Fair value of encumbered assets	Book value of unencumbered assets	Fair value of unencumbered assets
A - Assets	1 706 676	1 706 676	1 523 981	1 523 981
Equity instruments			132	132
Debt securities	49 320	49 320	233 368	233 368
Other assets, including lending	1 657 356	1 657 356	1 290 481	1 290 481

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	78 951	94 703
Debt securities issued to the public	1 278 253	1 598 597
Derivative contracts	7 048	13 375
Total	1 364 252	1 706 676

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 1,706.7 million, out of which of covered bonds were EUR 1,649.3 million on 31 December 2019. 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 218.4 million on 31 December 2019. EUR 677.0 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 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 on loans and other commitments)	
Return on equity % (ROE)	Operating profit - income taxes ――― Equity + accumulated appropriations less deferred tax liabilities (average total at the beginning and end of the year)	x 100
Cost-to-income ratio, %	Administrative expenses + depreciation and impairment losses on tangible and intangible assets + other operating expenses ――― 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 hedge accounting + net income from investment properties + other operating income	x 100
LTV-ratio (Loan to Value, average), %	Receivables from the public and public sector entities ――― Fair value of collateral received against the receivables from the public and public sector entities Loan-to-value ratio is calculated by dividing the outstanding loan balance with the fair value of the total amount of the collaterals allocated to the loan. Only housing and residential property collaterals are taken into account. The average LTV ratio is the weighted average of individual loan-to-value ratios.	x 100
Expected credit losses, %	Expected credit losses from loans to the public in P&L ――― Lending to the public at the end of the period	x 100
Loans/deposits %	Receivables from the public and public sector entities ――― Deposits	x 100
Deposits out of total funding, %	Deposits ――― Total funding Total funding includes liabilities to credit institutions, liabilities to the public and public sector entities, debt securities issued to the public as well as subordinated liabilities.	x 100
Long-term funding out of total funding, %	Total funding with a remaining maturity of 12 months ――― Total funding Total funding includes liabilities to credit institutions, liabilities to the public and public sector entities, debt securities issued to the public as well as subordinated liabilities.	x 100
Short-term liquidity, months	Coverage of short-term liquidity to wholesale funding cash flows (difference of days multiplied with 365 (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.

Opinion on the review of the 1 January – 31 March 2020 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 31 March 2020, income statement, statement of changes in equity and the cash flow statement for the three 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 31 March 2020 and the result and cash flows of its operations for the three months period ended.

Helsinki 29 April 2020

PricewaterhouseCoopers Oy
Authorised Public Accountants

Jukka Paunonen
Authorised Public Accountant (KHT)