



HYPO

# **THE MORTGAGE SOCIETY OF FINLAND**

## Interim Report

### 1 January – 30 June 2016

The Interim Report for the period of 1 January – 30 September 2016 will be published on 31 October 2016.

*The figures in the tables in the Report are presented in thousands of euros.*

## Hypo Group's January – June 2016

The home finance specialist Hypo diversified its investor base by issuing the first covered bond. Strong growth of low risk loan portfolio continued.

### CEO Ari Pauna:

*“Hypo’s long-term work, started already in 2002, for diversification of funding sources culminated during the period with an inaugural covered bond issue. As Hypo is a mutual company, it is guaranteed that the profitability improvement from the new mortgage bank activities will strengthen group’s capital adequacy and competitiveness thus creating better possibilities for financing the increase of Finnish housing property in growing cities. The operating profit for 2016 will reach that of 2015 unless there will be significant negative changes in the operating environment.”*

- Group’s operating profit reached EUR 4.6 million (EUR 4.2 million 1-6/2015)
- Net fee and commission income EUR 2.5 million (EUR 1.8 million)
- Loan portfolio EUR 1,649.3 million (EUR 1,420.7 million 31.12.2015)
- Deposits EUR 1,060.8 million (EUR 1,040.0 million)
- Common Equity Tier 1 (CET1) ratio 12.9% (13.8% 31.12.2015)

#### GROUP'S KEY FIGURES

(1000 €)	1-6/2016	1-6/2015	4-6/2016	4-6/2015	2015
Net interest income	2 049	2 537	1 267	1 191	4 574
Net fee and commission income	2 499	1 833	1 437	896	3 416
Total other income	5 179	3 975	2 558	1 766	8 681
Total expenses (incl. depreciation, other operating expenses and impairment losses)	-5 121	-4 105	-2 716	-1 799	-9 149
Operating profit	4 607	4 240	2 546	2 054	7 523
Receivables from the public and public sector entities	1 649 262	1 308 753	1 649 262	1 308 753	1 420 711
Deposits	1 060 801	748 084	1 060 801	748 084	1 039 955
Balance sheet total	2 149 995	1 700 252	2 149 995	1 700 252	1 959 478
Common Equity Tier 1 (CET1) ratio	12,9	14,4	12,9	14,4	13,8
Cost-to-income ratio,%	52,6	49,5	51,5	47,0	54,9
Non-performing assets, % of the loan portfolio	0,24	0,24	0,24	0,24	0,16
LTV-ratio, % / Loan to Value, average, %	39,6	43,0	39,6	43,0	41,1
Loans / deposits, %	155,5	174,9	155,5	174,9	136,6

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Hypo Group's interim report can be accessed at  
<http://www.hypo.fi/en/>

## **HYPOT GROUP**

The Mortgage Society of Finland Group (hereafter "Hypo Group" or "Hypo") is the only nationwide expert organization specialising in home financing and housing in Finland. Hypo aims to constantly complement traditional home financing and housing products with new, alternative and customer-oriented solutions.

The Mortgage Society of Finland grants loans to households and housing companies with domestic housing or residential property as collateral. Suomen AsuntoHypoPankki Oy deposit bank offers its customers deposit products, payment cards and residential land trustee services. Hypo has approximately 25,000 customers. Maintaining the strong capital adequacy and keeping the customer promise "Secure way for better living" guides Hypo in growing the business in a profitable manner, while managing risks.

S&P Global Ratings has assigned a 'BBB/A-3' long and short-term counterparty credit ratings to Hypo. Rating for the cover pool of Hypo's covered bond is 'AAA' (S&P Global Ratings).

### **OPERATING ENVIRONMENT**

Finnish economic output grew modestly in Q2 2016. The construction industry led the development while private consumption also held up. Retail sales, car sales and housing markets continued to grow steadily. On the other hand exports were still meagre. Outlook for domestic and external demand faced a negative shock as Britain voted to leave the European Union on the 23.6.2016 referendum. Effects from the increased uncertainty were not yet visible in the real economy in Q2. Labour market improved slowly and unemployment rate remained close to 9 percent. Inflation was only barely above 0 percent as lower interest rates and oil prices kept down the general price level. European Central Bank kept main policy rates unchanged, but expectations of future

monetary easing led to a slight decline in short-term interest rates. In June the 12 month Euribor rate fell to -0.05 percent.

The annual growth of the housing loan stock in Finland was 2.7 percent in June 2016. Household deposits increased by 2.6 percent. In the same period house prices of old dwellings rose in the Helsinki Metropolitan Area by 2.4 percent and declined elsewhere in Finland by 0.8 percent.

### **RESULT AND PROFITABILITY**

#### **April – June 2016**

Hypo Group's operating profit was EUR 2.5 million (EUR 2.1 million for April – June 2015). Income totalled EUR 5.3 million (EUR 3.9 million) and expenses EUR 2.7 million (EUR 1.8 million).

#### **January – June 2016**

Hypo Group's operating profit increased from last year to EUR 4.6 million (EUR 4.2 million for January – June 2015).

Net interest income decreased to EUR 2.0 million (EUR 2.5 million).

Net fee income increased to EUR 2.5 million (EUR 1.8 million).

Net income from investment properties (housing units and residential land) amounted to EUR 3.6 million (EUR 3.5 million). This included EUR 2.4 million of capital gains (EUR 2.2 million).

Group's cost-to-income ratio was 52.6% (49.5%).

Impairments were EUR 0.0 million during the financial period (EUR 0.0 million).

Group's comprehensive income, EUR 4.9 million (EUR 3.3 million), includes EUR 3.8 million (EUR 3.5 million) of profit for the financial period and the change in the fair value reserve included in equity amounting to EUR 0.6 million (EUR -0.5 million) as well as the revaluation of defined benefit pension

plans worth EUR 0.7 million (EUR 0.2 million) and EUR -0.3 million from changes in ownership of a subsidiary (EUR 0.2 million).

## **PERSONNEL AND DEVELOPMENT**

On 30 June 2016, the number of permanent personnel was 49 (52 on 30 June 2016). These figures do not include the CEO and the COO. Cooperation with Helmi Business College continued.

## **ASSETS AND LIABILITIES**

### **Lending**

The loan portfolio grew to EUR 1,649.3 million (EUR 1,420.7 million on 31 December 2015).

Hypo has an entirely residential property-secured loan portfolio. The average Loan-to-Value ratio of the loan portfolio was 39.6% at the end of the period (41.1% on 31 December 2015).

Amount of non-performing receivables was low, EUR 3.9 million (EUR 2.3 million on 31 December 2015), representing 0.24% of the loan portfolio (0.16%).

### **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, totalled EUR 422.9 million (EUR 458.6 million on 31 December 2015), which corresponds to 19.7% (23.4%) of the total assets. The cash and cash equivalents (which totalled EUR 419.1 million) consisted of assets distributed widely across various counterparties, and of debt securities that are tradable on the secondary market, of which 84% had a credit rating of at least AA- or were of equivalent credit quality and 99% were ECB repo eligible. The Liquidity Coverage Ratio was 113%.

The surplus of EUR 8.3 million (EUR 7.4 million) from the Mortgage Society of

Finland's pension foundation has been recognised in Group's other assets.

The share of housing and residential land holdings remained at a low level, 2.8% of the total assets (3.5% on 31 December 2015). Apartments and residential land owned and rented out by Hypo enable Group to offer its customers a more comprehensive selection of housing products and services. Hypo's properties are located in selected growth centres, mainly in the Helsinki Metropolitan Area, distributed across key residential districts. The property in Hypo's own use is located in the centre of Helsinki. The difference between the fair value and the book value of the properties remained strongly positive at EUR 6.0 million (EUR 8.8 million on 31 December 2015).

### **Derivative contracts**

The balance sheet value of derivative receivables was EUR 1.0 million on 30 June 2016 (EUR 0.5 million on 31 December 2015), and the value of liabilities was EUR 6.0 million (EUR 5.6 million).

### **Deposits and other funding**

During the financial period the proportion of deposit remained at the year-end level and was EUR 1,060.8 million on 30 June 2016 (EUR 1,040.0 million on 31 December 2015). The share of deposits accounted for 53.0% (56.9%) of total funding. 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.

During the period the Mortgage Society of Finland issued a covered bond with a nominal amount of EUR 250.0 million. The nominal amount of mortgages in the cover pool was EUR 375.3 million. Hypo repurchased its own bonds to the nominal amount of EUR 11.5 million.

The share of long-term funding of total funding was 43.4% on 30 June 2016 (39.5%).

The total funding at the end of the financial period was EUR 2,001.4 million (EUR 1,829.2 million).

## **EQUITY, CAPITAL ADEQUACY AND RISK MANAGEMENT**

Hypo Group's equity amounted to EUR 106.4 million at the end of the financial period (EUR 101.5 million on 31 December 2015). 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 June 2016 was 12.9% (13.8% on 31 December 2015). Profit for the financial period 1 January – 30 June 2016 is included in the Core Tier 1 equity, based on the statement by the auditors. In measuring credit and counterparty risk, the standardised approach is used. Group's own funds are quantitatively and qualitatively strong in relation to Group's current and future business, as well as to changes, even exceptional ones, in the operating environment. At the end of June, Group's Leverage Ratio was 3.9% (4.3%).

There have been no significant negative changes in the risk levels during the financial period. More detailed information on capital adequacy and risk management practices are published as part of the audited annual Financial Statements, the Notes and the Annual Report. The same information and any updates therein can also be accessed at [www.hypo.fi/en](http://www.hypo.fi/en).

## **KEY EVENTS SINCE THE END OF THE FINANCIAL PERIOD**

Since the end of the financial period of 1 January – 30 June 2016, there have not been any significant changes in the outlook or

financial standing of the Mortgage Society of Finland or its Group.

## **FUTURE OUTLOOK**

Uncertainties in global economy, especially in European economic development, have increased after Britain voted to leave the EU. We believe, however, that the first half year's positive development in housing and mortgage markets will continue in the largest growth centres.

Group management estimates that the 2016 operating profit will reach 2015 levels.

Helsinki, 10 August 2016

The Board

Sources:

Loans and deposits; Bank of Finland

Housing prices; June 2016; Statistics Finland

Cost-to-income ratio:

(Administrative expenses + depreciation and impairments from tangible and intangible assets + other operating income) / (net interest income + profit from equity investments + net income from fees and commissions + net income from available-for-sale financial assets + net income from securities trading and currency operations + net income from investment properties + other operating income)

*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.*

**CONSOLIDATED INCOME STATEMENT, IFRS**

(1000 €)	4-6/2016	4-6/2015	1-6/2016	1-6/2015	2015
Interest income	4 903,9	5 204,1	9 968,9	10 426,6	20 960,0
Interest expenses	-3 636,9	-4 012,9	-7 920,1	-7 889,8	-16 386,2
<b>NET INTEREST INCOME</b>	<b>1 267,0</b>	<b>1 191,2</b>	<b>2 048,8</b>	<b>2 536,8</b>	<b>4 573,8</b>
Income from equity investments	0,0	0,0	0,0	0,0	0,0
Fee and commission income	1 462,9	905,6	2 538,4	1 857,7	3 469,2
Fee and commission expenses	-25,4	-9,5	-39,6	-24,2	-53,0
Net income from securities and foreign currency transactions					
Net income from securities trading	41,9	-948,0	-882,9	-749,6	-569,5
Net income from foreign currency transactions	0,0	0,1	0,1	0,3	0,5
Net income from financial assets available for sale	955,2	419,3	2 501,9	1 251,9	2 474,2
Net income from hedge accounting	-14,7	0,0	-14,7	0,0	0,0
Net income from investment properties	1 577,5	2 293,3	3 579,9	3 475,1	6 783,0
Other operating income	-1,8	0,8	-4,8	-3,2	-6,8
Administrative expenses					
Personnel costs					
Wages and salaries	-1 153,2	-824,8	-2 331,4	-2 067,6	-4 390,0
Other personnel related costs	0,0				
Pension costs	-223,5	-174,5	-475,4	-433,5	-982,9
Other personnel related costs	8,7	8,8	-85,1	-46,6	-95,7
Other administrative expenses	-738,6	-601,1	-1 374,2	-1 169,3	-2 564,2
Total administrative expenses	-2 106,5	-1 591,6	-4 266,1	-3 717,0	-8 032,9
Depreciation and impairment losses on tangible and intangible assets	-81,1	-97,4	-154,3	-181,9	-375,1
Other operating expenses	-523,1	-123,2	-696,2	-227,7	-746,5
Impairment losses on loans and other commitments	-5,3	13,2	-3,9	21,7	6,0
<b>OPERATING PROFIT</b>	<b>2 546,5</b>	<b>2 053,8</b>	<b>4 606,5</b>	<b>4 239,8</b>	<b>7 522,7</b>
Income taxes	-437,8	-359,0	-800,8	-763,5	-1 314,9
<b>OPERATING PROFIT AFTER TAX</b>	<b>2 108,7</b>	<b>1 694,8</b>	<b>3 805,8</b>	<b>3 476,3</b>	<b>6 207,9</b>
<b>PROFIT FOR THE PERIOD</b>	<b>2 108,7</b>	<b>1 694,8</b>	<b>3 805,8</b>	<b>3 476,3</b>	<b>6 207,9</b>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, IFRS**

(1000 €)	4-6/2016	4-6/2015	1-6/2016	1-6/2015	2015
Profit for the period	2 108,7	1 694,8	3 805,8	3 476,3	6 207,9
Items that may be reclassified subsequently to income statement					
Change in fair value reserve					
Cash flow hedges	312,1	316,5	254,4	776,9	1 241,3
Available for sale financial assets	194,8	-1 089,6	333,1	-1 306,6	-1 557,0
	506,9	-773,1	587,4	-529,6	-315,7
Items that may not be reclassified subsequently to the income statement					
Revaluation of defined benefit pension plans	748,8	177,5	748,8	177,5	324,5
Effect of changes in the ownership of Bostads Ab Taos	-299,5	169,9	-299,5	169,9	3,1
Correction for previous year	0,0	0,0	34,9	0,0	-62,3
	449,2	347,4	484,1	347,4	265,3
Total other comprehensive income items	956,1	-425,7	1 071,6	-182,2	-50,5
<b>COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>3 064,8</b>	<b>1 269,0</b>	<b>4 877,3</b>	<b>3 294,1</b>	<b>6 157,4</b>

**CONSOLIDATED BALANCE SHEET, IFRS**

(1000 €)	<b>30.6.2016</b>	<b>31.12.2015</b>	<b>30.6.2015</b>
<b>ASSETS</b>			
Cash	114 000,0	170 000,0	38 013,9
Debt securities eligible for refinancing with central banks			
Treasury bills			
Other	274 480,5	270 650,5	232 520,4
Receivables from credit institutions			
Repayable on demand	27 632,9	11 404,9	31 780,6
Other	943,1	786,4	1 075,9
	<u>28 576,0</u>	<u>12 191,3</u>	<u>32 856,5</u>
Receivables from the public and public sector entities			
Other than those repayable on demand	1 649 262,2	1 420 711,2	1 308 753,3
Debt securities			
From others	2 073,0	2 051,5	5 078,0
	<u>2 073,0</u>	<u>2 051,5</u>	<u>5 078,0</u>
Shares and holdings	132,4	132,4	115,9
Derivative financial instruments	1 022,9	510,4	1 327,0
Intangible assets			
Other long-term expenditure	2 662,5	1 927,8	1 205,0
Tangible assets			
Investment properties and shares and holdings in investment properties	60 672,2	67 784,8	62 165,2
Other properties and shares and holdings in real estate corporations	869,7	939,2	950,8
Other tangible assets	352,7	330,5	386,6
	<u>61 894,7</u>	<u>69 054,5</u>	<u>63 502,5</u>
Other assets	10 476,4	8 029,7	11 380,8
Accrued income and advances paid	4 892,3	3 640,7	4 823,4
Deferred tax receivables	522,3	577,8	675,4
<b>TOTAL ASSETS</b>	<b><u>2 149 995,1</u></b>	<b><u>1 959 477,6</u></b>	<b><u>1 700 252,1</u></b>



**CONSOLIDATED BALANCE SHEET, IFRS**

(1000 €)

	<b>30.6.2016</b>	<b>31.12.2015</b>	<b>30.6.2015</b>
<b>LIABILITIES</b>			
Liabilities to credit institutions			
Central banks	55 000,0	20 000,0	20 000,0
Credit institutions			
Repayable on demand			
Other than those repayable on demand	77 087,4	131 385,7	134 587,3
	<u>132 087,4</u>	<u>151 385,7</u>	<u>154 587,3</u>
Liabilities to the public and public sector entities			
Deposits			
Repayable on demand	571 131,0	516 063,0	340 208,4
Other	489 669,9	522 879,5	405 863,9
	<u>1 060 800,9</u>	<u>1 038 942,5</u>	<u>746 072,3</u>
Other liabilities			
Other than those repayable on demand	31 458,6	34 028,9	36 915,6
	<u>1 092 259,5</u>	<u>1 072 971,4</u>	<u>782 987,8</u>
Debt securities issued to the public			
Bonds	680 648,5	521 878,6	506 271,7
Other	82 935,4	69 451,3	104 372,3
	<u>763 583,9</u>	<u>591 329,9</u>	<u>610 644,0</u>
Derivative financial instruments	5 952,7	5 627,4	5 794,2
Other liabilities			
Other liabilities	20 941,8	7 862,4	15 000,1
Deferred income and advances received	5 978,0	6 061,3	5 892,7
Subordinated liabilities			
Other	13 470,1	13 469,7	17 962,8
Deferred tax liabilities	9 294,3	9 219,9	8 696,6
<b>EQUITY</b>			
Basic capital	5 000,0	5 000,0	5 000,0
Other restricted reserves			
Reserve fund	22 796,7	22 794,7	22 795,2
Fair value reserve			
From cash flow hedging	-1 159,4	-1 413,8	-1 878,1
From fair value recognition	-416,0	-749,1	-498,6
Defined benefit pension plans	2 280,6	1 531,8	1 384,9
Unrestricted reserves			
Other reserves	22 923,5	22 923,5	22 923,5
Retained earnings	51 196,2	45 254,9	45 483,6
Profit for the period	3 805,8	6 207,9	3 476,3
	<u>106 427,3</u>	<u>101 550,0</u>	<u>98 686,7</u>
<b>TOTAL LIABILITIES</b>	<b><u>2 149 995,1</u></b>	<b><u>1 959 477,6</u></b>	<b><u>1 700 252,1</u></b>

<b>CHANGE IN EQUITY</b> (1000 €)	<b>Basic capital</b>	<b>Revaluation reserves</b>	<b>Reserve fund</b>	<b>Fair value reserve</b>	<b>Other reserves</b>	<b>Retained earnings</b>	<b>Total</b>
<b>Equity 1 January 2015</b>	5 000,0	0,0	22 793,8	-639,8	22 923,5	45 315,1	95 392,6
Profit for the period						3 476,3	3 476,3
Other comprehensive income							
Effect of changes in the ownership of Taos			0,5			169,44	169,9
Profit use of funds			0,9			-0,9	0,0
Cash flow hedges							
Amount recognised in equity				352,0			352,0
Amount transferred to the income statement				619,1			619,1
Change in deferred taxes				-194,2			-194,2
Financial assets available for sale							
Change in fair value				-381,3			-381,3
Amount transferred to the income statement				-1 251,9			-1 251,9
Change in deferred taxes				326,6			326,6
Revaluation of defined benefit plans							
Actuarial gains / losses				221,9			221,9
Change in deferred taxes				-44,4			-44,4
Total other comprehensive income	0,0	0,0	1,4	-352,1	0,0	168,5	-182,2
<b>Equity 30 June 2015</b>	<b>5 000,0</b>	<b>0,0</b>	<b>22 795,2</b>	<b>-991,9</b>	<b>22 923,5</b>	<b>48 959,9</b>	<b>98 686,7</b>
<b>Equity 1 January 2016</b>	5 000,0	0,0	22 794,7	-631,0	22 923,5	51 462,8	101 550,0
Profit for the period						3 805,8	3 805,8
Other comprehensive income							
Correction for the year 2015						34,9	34,9
Effect of changes in the ownership of Taos						-299,5	-299,5
Profit use of funds			2,8			-2,8	0,0
Cash flow hedges							
Amount recognised in equity				-605,8			-605,8
Amount transferred to the income statement				923,7			923,7
Change in deferred taxes				-63,6			-63,6
Financial assets available for sale							
Change in fair value				2 918,2			2 918,2
Amount transferred to the income statement				-2 501,9			-2 501,9
Change in deferred taxes				-83,3			-83,3
Revaluation of defined benefit plans							
Actuarial gains / losses				936,0			936,0
Change in deferred taxes				-187,2			-187,2
Total other comprehensive income	0,0	0,0	2,8	1 336,2	0,0	-267,4	1 071,5
<b>Equity 30 June 2016</b>	<b>5 000,0</b>	<b>0,0</b>	<b>22 797,5</b>	<b>705,1</b>	<b>22 923,5</b>	<b>55 001,1</b>	<b>106 427,3</b>

## CONSOLIDATED CASH FLOW STATEMENT

(1000 €)	1-6/2016	1-6/2015
<b>Cash flow from operating activities</b>		
Interest received	9 747,2	10 040,6
Interest paid	-7 161,3	-6 501,2
Fee income	2 160,8	1 718,6
Fee expenses	-39,6	-24,2
Net income from securities and foreign currency transactions	-882,9	-749,3
Net income from available-for-sale financial assets	2 501,9	1 251,9
Net income from hedge accounting	-14,7	0,0
Net income from investment properties	2 381,1	3 780,9
Other operating income	-4,8	-3,2
Administrative expenses	-6 112,7	-4 505,4
Other operating expenses	-709,5	-229,7
Credit and guarantee losses	-3,9	21,7
Income taxes	-598,5	-477,6
<b>Total net cash flow from operating activities</b>	<b>1 263,2</b>	<b>4 323,2</b>
<b>Operating assets increase (-) / decrease (+)</b>		
Receivables from customers (lending)	-225 838,2	-101 638,8
Collateral, derivatives	-194,9	0,0
Investment properties	7 265,4	-8 646,6
<b>Operating assets increase (-) / decrease (+) total</b>	<b>-218 767,7</b>	<b>-110 285,4</b>
<b>Operating liabilities increase (+) / decrease (-)</b>		
Liabilities to the public and public sector organisations (deposits)	21 858,5	278 008,6
<b>Operating liabilities increase (+) / decrease (-) total</b>	<b>21 858,5</b>	<b>278 008,6</b>
<b>NET CASH FLOWS ACCRUED FROM OPERATING ACTIVITIES</b>	<b>-195 646,1</b>	<b>172 046,4</b>
<b>Cash flows from investments</b>		
Change in fixed assets	-841,7	-659,7
Net income from equity investments	0,0	-2,4
<b>NET CASH FLOWS ACCRUED FROM INVESTMENTS</b>	<b>-841,7</b>	<b>-662,1</b>
<b>Cash flows from financing</b>		
Bank loans, new withdrawals	71 523,5	28 673,3
Bank loans, repayments	-90 821,9	-74 460,5
Other liabilities, increase (-) / decrease (+)	-2 577,3	-3 308,7
Bonds, new issues	264 942,1	63 500,0
Bonds, repayments	-95 826,9	-78 070,0
Certificates on deposit, new issues	92 282,8	138 391,1
Certificates on deposit, repayments	-78 798,8	-164 047,5
Subordinated liabilities, new withdrawals	35,2	10,4
Subordinated liabilities, repayments	-34,7	-9,8
<b>NET CASH FLOWS ACCRUED FROM FINANCING</b>	<b>160 724,1</b>	<b>-89 321,7</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>-35 763,7</b>	<b>82 062,6</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>454 893,2</b>	<b>226 406,2</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>419 129,5</b>	<b>308 468,8</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>-35 763,7</b>	<b>82 062,6</b>

## NOTES

### 1. Key accounting policies

This Interim Report applies the same IFRS accounting policies as the Group's Financial Statements on 31 December 2015. The release has been prepared in accordance with the IAS 34 standard (Interim Financial Reporting) approved in the EU. The new IFRS standards and interpretations effective from the financial year which started on 1 January 2016 did not have any material impact on the consolidated result or balance sheet.

The release does not contain all information and Notes that are required in the annual Financial Statements. The Report should be read in conjunction with the Group's 31 December 2015 Financial Statements.

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

The 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 per cent, and the housing company Bostadsaktiebolaget Taos, of which the Group companies own 54.6 per cent. The financial statements of AsuntoHypoPankki and Taos have been consolidated using the acquisition cost method, and housing company-type associated companies are treated in the same manner as other housing company-type investments.

### 2. Issuance and repayments of debt and equity securities

The issuance of debt securities and repayments/repurchases thereof are presented in the consolidated cash flow statement for 1 January – 30 June 2016.

### 3. Own funds and capital ratios

Hypo Group own funds and capital ratios	30.6.2016	31.12.2015	30.6.2015
Equity	106 427,3	101 550,0	98 686,7
Fair value reserve	1 159,4	1 413,8	1 878,1
Revaluation of defined pension plans	-2 280,6	-1 531,8	-1 384,9
Surplus from defined pension plans	-6 660,1	-5 880,2	-5 701,4
Common Equity Tier 1 (CET1) capital before regulatory adjustments	98 646,0	95 551,7	93 478,6
Intangible assets	-2 130,0	-1 542,2	-964,0
Common Equity Tier 1 (CET1) capital	96 516,0	94 009,5	92 514,6
Additional Tier 1 (AT1) capital	0,0	0,0	0,0
Tier 1 capital (T1 = CET1 + AT1)	96 516,0	94 009,5	92 514,6
Tier 2 (T2) capital	0,0	0,0	0,0
Total Capital (TC = T1 + T2)	96 516,0	94 009,5	92 514,6
Total risk-weighted items	748 585,8	682 150,8	643 165,3
of which credit risk	720 222,7	653 785,3	616 632,6
of which market risk	0,0	2,4	0,0
of which operational risk	28 363,1	28 363,1	26 532,7
of which other risks	0,0	0,0	0,0
Common Equity Tier 1 (CET1) in relation to risk-weighted items (%)	12,9	13,8	14,4
Tier 1 capital (T1) in relation to risk-weighted items (%)	12,9	13,8	14,4
Total capital (TC) in relation to risk-weighted items (%)	12,9	13,8	14,4
Minimum capital	5 000,0	5 000,0	5 000,0
Capital conservation buffer in relation to risk-weighted items (%)	2,5	2,5	2,5
Countercyclical capital buffer in relation to risk-weighted items (%)	0,0	0,0	0,0

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.

#### 4. Contingent off-balance sheet commitments

(1000 €)	30.6.2016	31.12.2015	30.6.2015
Commitments made on behalf of a customer to benefit a third party			
Guarantees	2 181,9	2 181,9	2 181,9
Irrevocable commitments given on behalf of a customer			
Granted but unclaimed loans	362 472,3	218 022,7	200 062,1
Potential redemptions of partially owned housing units and those to be completed	832,2	809,2	2 664,0
Total	365 486,4	221 013,8	204 908,0

#### 5. Fair values of financial instruments

(1000 €)		30.6.2016	31.12.2015	30.6.2015
	Fair value determination principle		Fair value	Fair value
<b>Financial assets</b>				
Debt securities eligible for refinancing with central banks	A	274 480,5	270 650,5	232 520,4
Debt securities	A	2 073,0	2 051,5	5 078,0
Derivative contracts	B	1 022,9	510,4	1 327,0
Total		277 576,4	273 212,4	238 925,4

#### Financial liabilities

Derivative contracts	B	5 952,7	5 627,4	5 794,2
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Derivative contracts consist of interest rate and currency 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.

## **Opinion on the review of the 1 January – 30 June 2016 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 June 2016, income statement, statement of changes in equity and the cash flow statement for the six 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 June 2016 and the result and cash flows of its operations for the six months period ended.

Helsinki 8 August 2016

**PricewaterhouseCoopers Oy**  
Authorised Public Accountants

Juha Tuomala  
Authorised Public Accountant (KHT)