THE MORTGAGE SOCIETY OF FINLAND

Interim Report

1 January – 31 March 2017

The Interim Report for the period of 1 January to 30 June 2017 will be published on 11 August 2017

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

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

Hypo Group's January – March 2017

The home finance specialist Hypo's net interest income and competitiveness strengthened significantly.

CEO Ari Pauna:

"The positive development of Hypo's core business continued despite low interest rates and narrowing margins. The loan portfolio nears EUR 2 billion, and deposits EUR 1.5 billion while the number of customers approaches 30,000.

- Net interest income more than doubled, totaling EUR 1.8 million (EUR 0.8 million 1-3/2016)
- Net fee and commission income decreased to EUR 0.8 million (EUR 1.1 million 1-3/2016)
- Low risk loan portfolio secured by housing collaterals continued to grow faster than the market
- Non-performing loans remained low and impairment losses were 0 euros
- Loan / deposits ratio was 139.3% (150.2% on 31 December 2016)
- Liquidity covers wholesale funding cash flows for the following 20 months. LCR-ratio was 122.3%
- Common Equity Tier 1 (CET1) ratio, as calculated with standard and basic methods, was 13.2% (13.6% on 31 December 2016)

GROUP'S KEY FIGURES (1000 €)	**1-3/2017**	**1-3/2016**	**2016**
Net interest income	1 768	782	5 386
Net fee and commission income	832	1 061	4 439
Total other income	1 359	2 621	7 924
Total expenses (incl. depreciation, other operating expenses and impairment losses)	-2 929	-2 405	-10 403
Operating profit	1 030	2 060	7 347
Receivables from the public and public sector entities	1 902 915	1 489 743	1 806 440
Deposits	1 366 152	1 094 952	1 203 042
Balance sheet total	2 410 457	1 972 925	2 305 218
Common Equity Tier 1 (CET1) ratio	13,2	13,7	13,6
Cost-to-income ratio,%	74,1	53,9	57,1
Non-performing loans, % of the loan portfolio	0,12	0,22	0,11
LTV-ratio, % / Loan to Value, average, %	38,9	40,4	38,4
Loans / deposits, %	139,3	136,1	150,2

Calculation of key figures and definitions are set out below.

Contact information: CEO Mr. Ari Pauna, tel. +358 9 228 361, +358 50 353 4690
COO Ms. Elli Reunanen, tel. +358 9 228 361, +358 50 527 9717

HYPO GROUP

The Mortgage Society of Finland Group (hereafter “Hypo Group” or “Hypo”) is the only nationwide expert organization specializing in home financing and housing in Finland. Hypo constantly aims to 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 over 27,000 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-2’ issuer credit ratings with stable outlook to Hypo.

Rating for Hypo’s covered bonds is ‘AAA’ (S&P Global Ratings).

OPERATING ENVIRONMENT

Economic growth clearly picked up in Finland at the beginning of 2017. Consumer confidence indicator hit an all-time high yet also the business confidence indicator implied a beginning of growth in larger scale. The economic growth continued to rely on construction industry and private consumption, which was reflected in retail and car sales. Exports were showing first positive signs for a long time.

In the housing market prices remained stable and sales volumes grew especially in Helsinki Metropolitan Area and in other growth centers. The slowdown of rent increases, which begun last year, continued due to a rise in new building construction boosting offer and competition.

In March, the United Kingdom submitted a formal notification of withdrawal to the European Union. Despite the global political uncertainty, the global economy and financial markets remained stable.

In Finland, the number of employed remained virtually unchanged and the unemployment rate came to a halt at 8.7 percent. Inflation increased by 1 percent. European Central Bank kept the main policy rates unchanged and announced to continue the asset purchases at least until the end of 2017. As a result, the short-term interest rates remained negative in early 2017. At the end of March 12-month Euribor rate was -0.1 percent.

The annual growth rate of the housing loan stock in Finland was 2.2 percent in February 2017 and the average interest rate of withdrawn mortgage loans was historically low at 1.14 percent. Household deposits, on turn, increased by 3.6 percent.

RESULTS AND PROFITABILITY

January – March 2017

Hypo Group’s operating profit was EUR 1.0 million (EUR 2.1 million for January – March 2016). Greater amount of operating profit than previously originated from core business operations. Operating profit included approximately EUR 1 million less net income from investment properties than the reference financial period. Increased operating expenses in comparison to the reference period, were due to the contribution to the Financial Stability Authority and changes in its accounting treatment.

Net interest income strengthened and grew to EUR 1.8 million (EUR 0.8 million) due to loan portfolio growth and lower funding cots.

Net fee and commission income totaled EUR 0.8 million (EUR 1.1 million). Decrease in fee and commission income resulted from intensified competition as well as from the extended VAT liability concerning land trustee services.

Net income from investment properties (housing units and residential land) amounted to EUR 1.2 million (EUR 2.0 million). Capital gains from the sales of investment properties decreased as envisaged, totaling 0.6 million (EUR 1.6 million).

Group’s cost-to-income ratio was 74.1% (53.9%). Operating expenses increased in comparison to the previous year due to the contribution to the Financial Stability Authority.

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

Group’s other comprehensive income, EUR 1.4 million (EUR 1.8 million) includes EUR 0.9 million (EUR 1.7 million) profit for the financial period as well as the change in the fair value reserve EUR 0.0 million (EUR 0.1 million), the revaluation of defined benefit pension plans EUR 0.5 million (EUR 0.0 million), and adjustments made to retained earnings EUR 0.0 million (EUR 0.1 million).

PERSONNEL AND DEVELOPMENT

On 31 March 2017 the number of permanent personnel was 47 (51 on 31 March 2016) of which two persons were on parental leave. These figures do not include the CEO and the COO. Cooperation with Perho Tourism, Culinary and Business College continued by offering traineeships for the students.

ASSETS AND LIABILITIES

Lending

The loan portfolio grew to EUR 1,902.9 million (EUR 1,806.4 million on 31 December 2016).

Hypo 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 was 38.9% (38.4% on 31 December 2016).

Amount of non-performing loans was low at EUR 2.4 million (EUR 2.1 million on 31 December 2016), representing 0.12% of the loan portfolio (0.11 %).

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 422.2 million (EUR 421.0 million on 31 December 2016), which corresponds to 17.5% (18.3%) of the total assets. The cash and cash equivalents (which totaled EUR 418.4 million) consisted of assets distributed widely across various counterparties, and of debt securities tradable on the secondary market, of which 95.4% (92.4%) had a credit rating of at least ‘AA-‘ or were of equivalent credit quality and 100.0% (100.0%) were ECB repo eligible. Liquidity covers wholesale funding cash flows for the following 20 months. The Liquidity Coverage Ratio was 122.3% (144.4%).

The surplus of EUR 6.3 million (EUR 5.7 million on 31 December 2016) from the Mortgage Society of Finland’s pension foundation has been recognized in Group’s other assets.

The share of housing and residential land holdings of total assets remained low at 2.7% level (2.7% on 31 December 2016).

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 centers, mainly in the Helsinki Metropolitan Area. The property in Hypo's own use is located in the center of Helsinki. The difference between the fair value and the book value of the properties totaled EUR 5.8 million (EUR 6.1 million on 31 December 2016).

Derivative contracts

The balance sheet value of derivative receivables was EUR 0.2 million on 31 March 2017 (EUR 0.1 million on 31 December 2016), and the value of liabilities was EUR 4.9 million (EUR 4.5 million).

Deposits and other funding

Deposits grew to EUR 1,366.2 million (EUR 1,203.1 million on 31 December 2016). The share of deposits accounted for 60.2% (55.5%) 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.

The share of long-term funding of total funding was 35.8% on 31 March 2017 (39.9%).

The total funding at the end of the financial period was EUR 2,269.8 million (EUR 2,169.1 million).

RISK TOLERANCE AND RISK MANAGEMENT

At the end of the financial period, Hypo Group's equity amounted to EUR 110.2 million (EUR 108.8 million on 31 December 2016). 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 31 March 2017 was 13.2% (13.6% on 31 December 2016). 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 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 the financial period, Group's Leverage Ratio was 3.7% (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 is published as part of the Annual Audited Financial Statements, the Notes and the Annual Report. The same information and any updates therein can also be accessed at www.hypo.fi/en.

KEY EVENTS SINCE THE END OF THE FINANCIAL PERIOD

Since the end of the financial period of 1 January – 31 March 2017, there have not been any significant changes in the outlook or financial standing of the Mortgage Society of Finland or its Group.

On April 26, 2017 S&P Global Ratings raised its short-term counterparty credit rating on the Mortgage Society of Finland to 'A-2' from 'A-3'. At the same time the 'BBB' long-term issuer credit rating, and its stable outlook, was affirmed. Rating improvement further strengthens Hypo's funding and core business. Hypo's COO Elli Reunanen was appointed as the CEO of FINE (The Finnish

Financial Ombudsman Service). Prior to termination of her employment on 3 October 2017 at the latest, she will continue her duties as Hypo's COO and a member of the Board.

FUTURE OUTLOOK

Finnish economic growth will continue moderately during 2017, which has positive repercussions on i.a. consumers' home-buying intentions. The urbanization in Finland continues and supports the housing and mortgage markets in the biggest growth centers. However, the positive profit development is still shadowed by uncertainties in the European and world economies.

Group management estimates the core business' share of the profit for the financial period keeps growing but due to the tight competition in Land Trustee Services, the following two quarterly results are expected to remain below of their comparison periods. The operating profit for 2017 is expected at most to reach the 2016 level or to remain slightly lower.

Helsinki, 2 May 2017

The Board

CONSOLIDATED INCOME STATEMENT, IFRS

(1000 €)	1-3/2017	1-3/2016	2016
Interest income	4 764,4	5 064,9	19 951,7
Interest expenses	-2 996,1	-4 283,1	-14 565,5
NET INTEREST INCOME	1 768,3	781,8	5 386,2
Income from equity investments	39,9	0,0	0,0
Fee and commission income	854,6	1 075,6	4 517,1
Fee and commission expenses	-22,5	-14,2	-77,6
Net income from securities and foreign currency transactions			
Net income from securities trading	-147,6	-924,9	-522,2
Net income from foreign currency transactions	0,0	0,1	0,1
Net income from financial assets available for sale	317,1	1 546,7	3 634,5
Net icome from hedge accounting	-2,5	0,0	-53,7
Net income from investment properties	1 154,3	2 002,4	4 881,3
Other operating income	-2,4	-2,9	-16,0
Administrative expenses			
Personnel costs			
Wages and salaries	-1 216,2	-1 178,2	-4 513,4
Other personnel related costs			
Pension costs	-232,4	-251,9	-1 054,2
Other personnel related costs	-66,6	-93,9	-308,2
Other administrative expenses	-706,2	-635,6	-2 825,1
Total administrative expenses	-2 221,4	-2 159,6	-8 700,9
Depreciation and impairment losses on tangible and intangible assets	-87,3	-73,2	-328,0
Other operating expenses	-626,1	-173,1	-1 105,0
Impairment losses on loans and other commitments	5,9	1,4	-268,7
OPERATING PROFIT	1 030,4	2 060,0	7 346,9
Income taxes	-160,4	-363,0	-1 228,9
OPERATING PROFIT AFTER TAX	870,0	1 697,1	6 118,0
PROFIT FOR THE PERIOD	870,0	1 697,1	6 118,0

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, IFRS

(1000 €)	1-3/2017	1-3/2016	2016
Profit for the period	870,0	1 697,1	6 118,0
Items that may be reclassified subsequently to income statement			
Change in fair value reserve			
Cash flow hedges	160,1	-57,7	822,5
Available for sale financial assets	-160,1	138,3	580,5
	0,1	80,5	1 403,0
Items that may not be reclassified subsequently to the income statement			
Revaluation of defined benefit pension plans	509,0	0,0	185,6
Effect of changes in the ownership of Bostads Ab Taos	0,0	0,0	-299,5
Correction for previous year	0,0	34,9	34,9
	509,0	34,9	-79,0
Total other comprehensive income items	509,1	115,4	1 324,0
COMPREHENSIVE INCOME FOR THE PERIOD	**1 379,1**	**1 812,5**	**7 442,0**

CONSOLIDATED BALANCE SHEET, IFRS

(1000 €)	**31.3.2017**	**31.12.2016**	**31.3.2016**
ASSETS			
Cash	140 400,0	120 200,0	126 000,0
Debt securities eligible for refinancing with central banks			
Treasury bills			
Other	275 104,6	291 927,8	265 003,9
Receivables from credit institutions			
Repayable on demand	2 880,2	5 153,3	8 446,3
Other	55,7	17,9	794,5
	2 935,9	5 171,2	9 240,8
Receivables from the public and public sector entities			
Other than those repayable on demand	1 902 915,5	1 806 439,8	1 489 743,4
Debt securities			
From others	0,0	0,0	2 053,0
	0,0	0,0	2 053,0
Shares and holdings	132,4	132,4	132,4
Derivative financial instruments	163,4	138,4	0,0
Intangible assets			
Other long-term expenditure	2 836,3	2 812,6	2 322,1
Tangible assets			
Investment properties and shares and holdings in investment pro	64 437,7	61 691,4	62 727,2
Other properties and shares and holdings in real estate corporati	862,1	864,7	936,5
Other tangible assets	342,0	336,7	365,7
	65 641,9	62 892,8	64 029,4
Other assets	13 678,6	9 239,5	7 942,9
Accrued income and advances paid	6 375,8	5 964,4	5 898,2
Deferred tax receivables	273,2	299,5	558,4
TOTAL ASSETS	**2 410 457,5**	**2 305 218,4**	**1 972 924,6**

CONSOLIDATED BALANCE SHEET, IFRS

(1000 €)	31.3.2017	31.12.2016	31.3.2016
LIABILITIES			
Liabilities to credit institutions			
Central banks	80 000,0	80 000,0	20 000,0
Credit institutions			
Repayable on demand			
Other than those repayable on demand	35 973,3	38 086,5	126 022,2
	115 973,3	118 086,5	146 022,2
Liabilities to the public and public sector entities			
Deposits			
Repayable on demand	682 182,6	641 954,6	563 477,3
Other	683 969,2	561 087,8	531 474,9
	1 366 151,8	1 203 042,4	1 094 952,3
Other liabilities			
Other than those repayable on demand	27 212,2	28 476,9	32 462,9
	1 393 364,0	1 231 519,3	1 127 415,1
Debt securities issued to the public			
Bonds	657 994,8	699 076,2	496 739,5
Other	93 476,2	111 433,3	51 972,2
	751 471,0	810 509,6	548 711,7
Derivative financial instruments	4 898,9	4 536,3	8 245,5
Other liabilities			
Other liabilities	5 364,2	8 660,0	9 423,2
Deferred income and advances received	10 639,9	4 640,3	7 085,4
Subordinated liabilities			
Other	8 980,2	8 980,1	13 469,4
Deferred tax liabilities	9 543,1	9 442,4	9 189,7
EQUITY			
Basic capital	5 000,0	5 000,0	5 000,0
Other restricted reserves			
Reserve fund	22 799,9	22 796,7	22 797,5
Fair value reserve			
From cash flow hedging	-431,1	-591,2	-1 471,5
From fair value recognition	-328,7	-168,6	-610,8
Defined benefit pension plans	2 226,4	1 717,4	1 531,8
Unrestricted reserves			
Other reserves	22 923,5	22 923,5	22 923,5
Retained earnings	57 162,9	51 048,1	51 494,9
Profit for the period	870,0	6 118,0	1 697,1
	110 223,0	108 843,9	103 362,5
TOTAL LIABILITIES	**2 410 457,5**	**2 305 218,4**	**1 972 924,6**

CHANGE IN EQUITY

(1000 €)	Basic capital	Revaluation reserves	Reserve fund	Fair value reserve	Other reserves	Retained earnings	Total
Equity 1 January 2016	5 000,0	0,0	22 794,7	-631,0	22 923,5	51 462,8	101 550,0
Profit for the period						1 697,1	1 697,1
Other comprehensive income							
Correction for the year 2015						34,9	34,9
Effect of changes in the ownership of Taos							
Adjustments to retained earnings							
Board proposal concerning the disposal of profits							
Profit use of funds			2,8			-2,8	0,0
Cash flow hedges							
Amount recognised in equity				-630,6			-630,6
Amount transferred to the income statement				558,5			558,5
Change in deferred taxes				14,4			14,4
Financial assets available for sale							
Change in fair value				1 719,6			1 719,6
Amount transferred to the income statement				-1 546,7			-1 546,7
Change in deferred taxes				-34,6			-34,6
Revaluation of defined benefit plans							
Actuarial gains / losses				0,0			0,0
Change in deferred taxes				0,0			0,0
Investments property, revaluation reserves							
Amount transferred to the previous period profits							
Change in deferred taxes							
Total other comprehensive income	0,0	0,0	2,8	80,5	0,0	32,1	115,4
Equity 31 March 2016	**5 000,0**	**0,0**	**22 797,5**	**-550,5**	**22 923,5**	**53 192,0**	**103 362,5**
Equity 1 January 2017	5 000,0	0,0	22 796,7	957,6	22 923,5	57 166,1	108 843,9
Profit for the period						870,0	870,0
Other comprehensive income							
Correction for the year 2015							
Effect of changes in the ownership of Taos							
Adjustments to retained earnings							
Board proposal concerning the disposal of profits							
Profit use of funds			3,2			-3,2	0,0
Cash flow hedges							
Amount recognised in equity				-17,9			-17,9
Amount transferred to the income statement				218,0			218,0
Change in deferred taxes				-40,0			-40,0
Financial assets available for sale							
Change in fair value				117,0			117,0
Amount transferred to the income statement				-317,1			-317,1
Change in deferred taxes				40,0			40,0
Revaluation of defined benefit plans							
Actuarial gains / losses				636,2			636,2
Change in deferred taxes				-127,2			-127,2
Investments property, revaluation reserves							
Amount transferred to the previous period profits							
Change in deferred taxes							
Total other comprehensive income	0,0	0,0	3,2	509,1	0,0	-3,2	509,1
Equity 31 March 2017	**5 000,0**	**0,0**	**22 799,9**	**1 466,7**	**22 923,5**	**58 032,9**	**110 223,0**

CONSOLIDATED CASH FLOW STATEMENT

(1000 €)	1-3/2017	1-3/2016
Cash flow from operating activities		
Interest received	4 088,2	4 250,8
Interest paid	-1 769,2	-2 479,4
Fee income	1 148,6	1 014,5
Fee expenses	-22,5	-14,2
Net income from securities and foreign currency transacti	-147,6	-924,8
Net income from available-for-sale financial assets	317,1	1 546,7
Net income from hedge accounting	-2,5	0,0
Net income from investment properties	2 018,6	1 548,4
Other operating income	-2,4	-2,9
Administrative expenses	2 386,5	-4 225,5
Other operating expenses	-630,6	-184,2
Credit and guarantee losses	5,9	1,4
Income taxes	-204,1	-152,3
Total net cash flow from operating activities	**7 186,1**	**378,5**
Operating assets increase (-) / decrease (+)		
Receivables from customers (lending)	-105 126,5	-70 181,2
Collateral, derivatives	268,2	0,0
Investment properties	-2 960,0	5 039,6
Operating assets increase (-) / decrease (+) total	**-107 818,3**	**-65 141,6**
Operating liabilities increase (+) / decrease (-)		
Liabilities to the public and public sector organisations (de	163 108,2	56 009,8
Operating liabilities increase (+) / decrease (-) total	163 108,2	56 009,8
NET CASH FLOWS ACCRUED FROM OPERATING ACTIVI	**62 476,0**	**-8 753,3**
Cash flows from investments		
Change in fixed assets	-113,6	-500,0
Equity investments increase (-) / decrease (+)	39,9	0,0
NET CASH FLOWS ACCRUED FROM INVESTMENTS	**-73,7**	**-500,0**
Casf flows from financing		
Bank loans, new withdrawals	89,3	4 979,4
Bank loans, repayments	-2 202,6	-10 343,0
Other liabilities, increase (-) / decrease (+)	-1 301,3	1 659,8
Bonds, new issues	5 864,1	7 790,3
Bonds, repayments	-45 753,2	-29 949,3
Certificates on deposit, new issues	218,0	32 227,3
Certificates on deposit, repayments	-18 175,2	-49 706,4
Subordinated liabilities, new withdrawals	10,7	17,7
Subordinated liabilities, repayments	-10,5	-17,9
NET CASH FLOWS ACCRUED FROM FINANCING	**-61 260,8**	**-43 342,2**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**1 141,5**	**-52 595,5**
Cash and cash equivalents at the beginning of the period	**417 299,0**	**454 893,2**
Cash and cash equivalents at the end of the period	**418 440,5**	**402 297,7**
CHANGE IN CASH AND CASH EQUIVALENTS	**1 141,5**	**-52 595,5**

NOTES

1. Key accounting policies

This Interim Report applies the same IFRS accounting policies as the Group's Financial Statements on 31 December 2016. The Interim Report 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 2017 did not have any material impact on the consolidated result or balance sheet.

The interim Report 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 Financial Statement.

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 – 31 March 2017.

3. Own funds and capital ratios

Hypo Group own funds and capital ratios	31.3.2017	31.12.2016
Equity	110 223,0	108 843,9
Fair value reserve	431,1	591,2
Revaluation of defined pension plans	-2 226,4	-1 717,4
Surplus from defined pension plans	-5 035,8	-4 528,0
Common Equity Tier 1 (CET1) capital before regulatory adjustments	103 391,8	103 189,8
Intangible assets	-2 269,0	-2 250,1
Common Equity Tier 1 (CET1) capital	101 122,8	100 939,6
Additional Tier 1 (AT1) capital	0,0	0,0
Tier 1 capital (T1 = CET1 + AT1)	101 122,8	100 939,6
Tier 2 (T2) capital	0,0	0,0
Total Capital (TC = T1 + T2)	101 122,8	100 939,6
Total risk-weighted items	764 339,0	743 003,7
of which credit risk	731 743,2	710 798,0
of which market risk	0,0	0,0
of which operational risk	28 964,9	28 964,9
of which other risks	3 630,9	3 240,8
Common Equity Tier 1 (CET1) in relation to risk-weighted items (%)	13,2	13,6
Tier 1 capital (T1) in relation to risk-weighted items (%)	13,2	13,6
Total capital (TC) in relation to risk-weighted items (%)	13,2	13,6
Minimum capital	5 000,0	5 000,0
Capital conservation buffer in relation to risk-weighted items (%)	2,5	2,5
Countercyclical capital buffer in relation to risk-weighted items (%)	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.
The other risk-weighted items include liability value adjustment risk (CVA).

4. Contingent off-balance sheet commitments

Consolidated off-balance sheet commitments

(1000 €)	**31.3.2017**	**31.12.2016**	**31.3.2016**
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	311 081,3	301 014,8	262 275,7
Potential redemptions of partially owned housing units and those to be completed	317,5	563,2	0,0
Total	313 580,7	303 759,8	264 457,6

5. Fair values of financial instruments

(1000 €)		**31.3.2017**	**31.12.2016**	**31.3.2016**
Financial assets	Fair value determination principle	Fair value	Fair value	Fair value
Debt securities eligible for refinancing with central banks	A	275 104,6	291 927,8	265 003,9
Debt securities	A	0,0	0,0	2 053,0
Derivative contracts	B	163,4	138,4	0,0
Total		275 268,0	292 066,2	267 056,8
Financial liabilities				
Derivative contracts	B	4 898,9	4 536,3	8 245,5

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.

6. Information concerning asset encumbrance

31 Mar 2017

(1000 €)	Book value of encumbered assets	Fair value of encumbered assets	Book value of unencumbered assets	Fair value of unencumbered assets
A - Assets	602 886	51 946	1 807 571	224 601
Equity instruments	-	-	132	132
Debt securities	51 946	51 946	224 468	224 468
Other assets, including lending	550 941	-	1 582 970	-

B - Collateral received

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

C - Encumbered assets and associated liabilities	Liabilities associated with encumbered assets	Encumbered assets
Book value of selected financial liabilities	79 844	104 627
Debt securities issued to the public	358 894	495 847
Derivative contracts	-	2 413
Total	438 739	602 886

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. There has been no significant changes in the group's encumbered assets during the past period.
Encumbered assets totaled EUR 602.9 million, out of which of covered bonds was EUR 550.9 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 totalled EUR 224,5 on 31 March 2017
EUR 1,050 million of unencumbered loans can be used as collateral for covered bonds.

31 Dec 2016

(1000 €)	Book value of encumbered assets	Fair value of encumbered assets	Book value of unencumbered assets	Fair value of unencumbered assets
A - Assets	602 433	51 889	1 702 785	240 172
Equity instruments		-	132	132
Debt securities	51 889	51 889	240 040	240 040
Other assets, including	550 544	-	1 462 613	-

B - Collateral received

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

C - Encumbered assets and associated liabilities	Liabilities associated with encumbered assets	Encumbered assets
Book value of selected financial liabilities	79 924	106 944
	359 634	494 070
	-	1 420
	439 558	602 433

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 coverd 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.
There has been no significant changes in the group's encumbered assets during the past period.
Group's encumbered assets increased due to issuance of covered bonds. Encumbered assets totaled EUR 602.4 million, out of which of coverde bonds was EUR 550.5 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 totalled EUR 240.0 on 31 December 2016. EUR 987 million of unencumbered loans can be used as collateral for covered bonds.

Opinion on the review of the 1 January – 31 March 2017 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 2017, 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 2017 and the result and cash flows of its operations for the three months period ended.

Helsinki 27 April 2017

PricewaterhouseCoopers Oy
Authorised Public Accountants

Jukka Paunonen
Authorised Public Accountant (KHT)

Sources:
Loans and deposits; Bank of Finland
Housing prices; February 2017, 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 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+ impairment losses on loans and other commitments)
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 available-for-sale financial assets + 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 x 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.
Loans/deposits %	Receivables from the public and public sector entities / Deposits x 100
Deposits out of total funding, %	Deposits / Total funding x 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, %	Total funding with a remaining maturity of 12 months / Total funding x 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	Receivables from the public and public sector entities deemed unlikely to be paid + receivables past due and unpaid over 90 days / Receivables from the public and public sector entities x 100 Non-performing assets are presented in accordance with the EU's Capital Requirements Regulation (575/2013).
LCR-ratio, %	Liquid assets / Outflow of liquidity – Inflow of liquidity (within 30 days) x 100 LCR-ratio is calculated in accordance with the EU's Capital Requirement Regulation CRR (EU 575/2013).
Leverage Ratio, %	Tier 1 Capital / Total exposure x 100 Leverage Ratio, % is calculated in accordance with the EU's Capital Requirement Regulation CRR (EU 575/2013).

Common Equity Tier 1 (CET1) ratio %	Common Equity Tier 1, CET1 / Total risk	x 100

$$\text{Common Equity Tier 1 (CET1) ratio \%} = \frac{\text{Common Equity Tier 1, CET1}}{\text{Total risk}} \times 100$$

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, impairment losses and depreciations.

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.

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.