THE MORTGAGE SOCIETY OF FINLAND

Interim Report

1 January – 30 June 2017

The Interim Report for the period of 1 January to 30 September 2017 will be published on 31 October 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 – June 2017

The home finance specialist Hypo's net interest income and competitiveness continued to strengthen.

CEO Ari Pauna:

"Hypo's loan portfolio grew to EUR 2 billion as a growing number of urban citizens chose Hypo to finance their home or housing company mortgage. The positive development of Hypo's core business continued despite low interest rates and narrowing margins."

- Net interest income doubled, totaling EUR 4.0 million (EUR 2.0 million 1-6/2016)
- Net fee and commission income decreased to EUR 1.9 million (EUR 2.5 million 1-6/2016) due to decrease in land trustee service profits.
- Low risk loan portfolio secured by housing collateral continued to grow faster than the market
- Non-performing loans remained low and impairment losses were 0 euros
- Loan / deposits ratio was 157.4% (150.2% on 31 December 2016)
- Liquidity covers wholesale funding cash flows for the following 39 months. LCR-ratio was 172.4% (144.4% 31 December 2016)
- 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 €)	**1-6/2017**	**1-6/2016**	**4-6/2017**	**4-6/2016**	**2016**
Net interest income	3 951	2 049	2 182	1 267	5 386
Net fee and commission income	1 883	2 499	1 051	1 437	4 439
Total other income	3 069	5 179	1 710	2 558	7 924
Total expenses	-5 769	-5 121	-2 840	-2 716	-10 403
Operating profit	3 134	4 607	2 104	2 546	7 347
Receivables from the public and public sector entities	2 035 257	1 649 262	2 035 257	1 649 262	1 806 440
Deposits	1 293 090	1 060 801	1 293 090	1 060 801	1 203 042
Balance sheet total	2 626 808	2 149 995	2 626 808	2 149 995	2 305 218
Common Equity Tier 1 (CET1) ratio	13,2	12,9	13,2	12,9	13,6
Cost-to-income ratio,%	64,9	52,6	57,6	51,5	57,1
Non-performing assets, % of the loan portfolio	0,13	0,24	0,13	0,24	0,11
LTV-ratio, % / Loan to Value, average, %	38,3	39,6	38,3	39,6	38,4
Loans / deposits, %	157,4	155,5	157,4	155,5	150,2

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 “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 sentiment clearly picked up in Finland at the beginning of 2017. Consumer confidence indicator hit an all-time high and the business confidence indicator shows the extent of the growth. Desired boost was offered by domestic as well as external market. Construction and private consumption continued to grow while export recovered at last. According to preliminary data, economic growth in 2017 was around 3 percent during the first 6 months.

In the housing market the prices fragmented even more. Helsinki leading the way, in Helsinki Metropolitan Area the prices rose by annual average rate of 3 percent while in other growth centers the prices varied between positive and negative as the prices in the regions experiencing net population outflows weakened by a couple of percentages. Sales quantities of old housing units increased slightly despite the biggest boom in new-built homes in decades. Construction of new housing units reached the highest level in 25 years especially in the growth centers. Rents continued to rise yet more moderately than previously, for new-built homes created increased supply and competition.

In March, the United Kingdom submitted a formal notification of withdrawal to the European Union while on the other side of the Atlantic, President of the U.S.A. Donald Trump has created uncertainty about the direction of the superpower. Despite the global political uncertainty, the global economy and financial markets remained stable.

In Finland, the number of employed grew throughout early 2017 and the unemployment rate stabilized at 8.8 percent. People previously outside of the labor market have returned to job search, which has restrained the reduction in unemployment. Inflation increased by just under 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 June 12-month Euribor rate was -0.16 percent.

The annual growth rate of the housing loan stock in Finland was 2.1 percent in June 2017 and the average interest rate of withdrawn mortgage loans was historically low at 1.07 percent. Household deposits, on turn, increased by 3.4 percent.

RESULTS AND PROFITABILITY

April – June 2017

Hypo Group's operating profit was EUR 2.1 million (EUR 2.5 million for April – June 2016). Income totaled EUR 4.9 million (EUR 5.3 million) and expenses EUR 2.8 million (EUR 2.7 million).

January – June 2017

Hypo Group's operating profit was EUR 3.1 million (EUR 4.6 million for January – June 2016). An increasing amount
of operating profit originated from core business operations. Net interest income doubled. Operating profit included nearly EUR 2 million less net income from investment properties than the reference financial period. Expenses increased due to Contribution to Financial Stability Authority and certain non-recurring items.

Net interest income strengthened and grew to EUR 4.0 million (EUR 2.0 million) due to loan portfolio growth and lower funding costs.

Net fee and commission income totaled EUR 1.9 million (EUR 2.5 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 1.6 million (EUR 3.6 million). Capital gains from the sales of investment properties decreased as envisaged, totaling 0.6 million (EUR 2.4 million).

Group's cost-to-income ratio was 64.9% (52.6%). Expenses increased due to Contribution to Financial Stability Authority and certain non-recurring items.

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

Group's other comprehensive income, EUR 3.3 million (EUR 4.9 million) includes EUR 2.6 million (EUR 3.8 million) profit for the financial period as well as the change in the fair value reserve EUR 0.1 million (EUR 0.6 million), the revaluation of defined benefit pension plans EUR 0.6 million (EUR 0.7 million), and adjustments in ownership of subsidiary and in retained earnings EUR 0.0 million (EUR -0.3 million).

PERSONNEL AND DEVELOPMENT

On 30 June 2017 the number of permanent personnel was 52 (49 on 30 June 2017) of which one person was on parental leave. These figures do not include the CEO and his Deputy. 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 2,035.3 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 38.3% (38.4% on 31 December 2016).

Amount of non-performing loans was low at EUR 2.6 million (EUR 2.1 million on 31 December 2016), representing 0.13% 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 518.0 million (EUR 421.0 million on 31 December 2016), which corresponds to 19.6% (18.3%) of the total assets. The cash and cash equivalents (which totaled EUR 514.3 million) consisted of assets distributed widely across various counterparties, and of debt securities tradable on the secondary market, of which 93.2% (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 39 months. The Liquidity Coverage Ratio was 172.4% (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 2.3% 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 0.3 million on 30 June 2017 (EUR 0.1 million on 31 December 2016), and the value of liabilities was EUR 8.4 million (EUR 4.5 million).

Deposits and other funding

Deposits grew to EUR 1,293.1 million (EUR 1,203.0 million on 31 December 2016). The share of deposits accounted for 52.5% (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 42.9% on 30 June 2017 (39.9%).

The total funding at the end of the financial period was EUR 2,461.9 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 112.2 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 30 June 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 3.8% (4.2%).

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 – 30 June 2017, there have not been any significant changes in the outlook or financial standing of the Mortgage Society of Finland or its Group.

Chief Risk Officer Mikko Huopio was nominated as Deputy CEO as of 1 July 2017. Former Deputy CEO, COO Elli Reunanen takes up the position as CEO of FINE (The Finnish Financial Ombudsman Service) in September 2017. Her employment relationship in Hypo terminates on 23 August 2017.

FUTURE OUTLOOK

Finnish economy is showing strong growth in 2017, which has positive repercussions on housing market and loan demand. The urbanization in Finland continues and supports the housing and mortgage markets in the biggest growth centers yet, at the same time, the decline of regions experiencing net population outflows continues. Uncertainties in the European and world economies may continue to weaken the outlook.

Following the increase in loan portfolio and net interest income, Hypo's core business' share of the profit for the financial period keeps growing but due to the tight competition in land trustee services, January-September results are expected to remain below of their comparison period. The operating profit for 2017 is expected at most to reach the 2016 level or to remain slightly lower. Hypo concentrates on its core business operations, whereupon risk level of lending is expected to become more moderate and capital adequacy to remain almost unchanged.

Helsinki, 11 August 2017

The Board

CONSOLIDATED INCOME STATEMENT, IFRS

(1000 €)	4-6/2017	4-6/2016	1-6/2017	1-6/2016	2016
Interest income	4 900,4	4 903,9	9 664,8	9 968,9	19 951,7
Interest expenses	-2 717,9	-3 636,9	-5 714,0	-7 920,1	-14 565,5
NET INTEREST INCOME	2 182,5	1 267,0	3 950,8	2 048,8	5 386,2
Income from equity investments	0,0	0,0	39,9	0,0	0,0
Fee and commission income	1 080,1	1 462,9	1 934,7	2 538,4	4 517,1
Fee and commission expenses	-28,9	-25,4	-51,4	-39,6	-77,6
Net income from securities and foreign currency transactions					
Net income from securities trading	821,5	41,9	673,9	-882,9	-522,2
Net income from foreign currency transactions	0,0	0,0	0,0	0,1	0,1
Net income from financial assets available for sale	360,6	955,2	677,8	2 501,9	3 634,5
Net icome from hedge accounting	-32,7	-14,7	-35,2	-14,7	-53,7
Net income from investment properties	449,6	1 577,5	1 603,9	3 579,9	4 881,3
Other operating income	111,3	-1,8	108,9	-4,8	-16,0
Administrative expenses					
Personnel costs					
Wages and salaries	-1 397,9	-1 153,2	-2 614,0	-2 331,4	-4 513,4
Other personnel related costs					
Pension costs	-276,4	-223,5	-508,8	-475,4	-1 054,2
Other personnel related costs	-15,4	8,7	-81,9	-85,1	-308,2
Other administrative expenses	-655,0	-738,6	-1 361,2	-1 374,2	-2 825,1
Total administrative expenses	-2 344,7	-2 106,5	-4 566,0	-4 266,1	-8 700,9
Depreciation and impairment losses on tangible and intangible assets	-107,8	-81,1	-195,1	-154,3	-328,0
Other operating expenses	-394,1	-523,1	-1 020,2	-696,2	-1 105,0
Impairment losses on loans and other commitments	6,7	-5,3	12,5	-3,9	-268,7
OPERATING PROFIT	2 104,0	2 546,5	3 134,4	4 606,5	7 346,9
Income taxes	-356,9	-437,8	-517,2	-800,8	-1 228,9
OPERATING PROFIT AFTER TAX	1 747,2	2 108,7	2 617,2	3 805,8	6 118,0
PROFIT FOR THE PERIOD	1 747,2	2 108,7	2 617,2	3 805,8	6 118,0

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, IFRS

(1000 €)	4-6/2017	4-6/2016	1-6/2017	1-6/2016	2016
Profit for the period	1 747,2	2 108,7	2 617,2	3 805,8	6 118,0
Items that may be reclassified subsequently to income statement					
Change in fair value reserve					
Cash flow hedges	149,5	312,1	309,6	254,4	822,5
Available for sale financial assets	-12,2	194,8	-172,3	333,1	580,5
	137,3	506,9	137,4	587,4	1 403,0
Items that may not be reclassified subsequently to the income statement					
Revaluation of defined benefit pension plans	44,4	748,8	553,3	748,8	185,6
Effect of changes in the ownership of Bostads Ab Taos	0,0	-299,5	0,0	-299,5	-299,5
Correction for previous year	0,0	0,0	0,0	34,9	34,9
	44,4	449,2	553,3	484,1	-79,0
Total other comprehensive income items	181,7	956,1	690,7	1 071,6	1 324,0
COMPREHENSIVE INCOME FOR THE PERIOD	**1 928,8**	**3 064,8**	**3 307,9**	**4 877,3**	**7 442,0**

CONSOLIDATED BALANCE SHEET, IFRS

(1000 €)	30.6.2017	31.12.2016	30.6.2016
ASSETS			
Cash	226 014,0	120 200,0	114 000,0
Debt securities eligible for refinancing with central banks			
Treasury bills			
Other	281 257,5	291 927,8	274 480,5
Receivables from credit institutions			
Repayable on demand	5 003,9	5 153,3	27 632,9
Other	2 004,5	17,9	943,1
	7 008,3	5 171,2	28 576,0
Receivables from the public and public sector entities			
Other than those repayable on demand	2 035 256,7	1 806 439,8	1 649 262,2
Debt securities			
From others	0,0	0,0	2 073,0
	0,0	0,0	2 073,0
Shares and holdings	132,4	132,4	132,4
Derivative financial instruments	258,6	138,4	1 022,9
Intangible assets			
Other long-term expenditure	2 839,1	2 812,6	2 662,5
Tangible assets			
Investment properties and shares and holdings in investment properties	60 223,6	61 691,4	60 672,2
Other properties and shares and holdings in real estate corporations	859,6	864,7	869,7
Other tangible assets	325,7	336,7	352,7
	61 408,9	62 892,8	61 894,7
Other assets	7 788,0	9 239,5	10 476,4
Accrued income and advances paid	4 592,9	5 964,4	4 892,3
Deferred tax receivables	251,2	299,5	522,3
TOTAL ASSETS	**2 626 807,6**	**2 305 218,4**	**2 149 995,1**

CONSOLIDATED BALANCE SHEET, IFRS

(1000 €)	30.6.2017	31.12.2016	30.6.2016
LIABILITIES			
Liabilities to credit institutions			
Central banks	80 000,0	80 000,0	55 000,0
Credit institutions			
Repayable on demand			
Other than those repayable on demand	35 977,7	38 086,5	77 087,4
	115 977,7	118 086,5	132 087,4
Liabilities to the public and public sector entities			
Deposits			
Repayable on demand	688 104,9	641 954,6	571 131,0
Other	604 984,6	561 087,8	489 669,9
	1 293 089,6	1 203 042,4	1 060 800,9
Other liabilities			
Other than those repayable on demand	26 010,3	28 476,9	31 458,6
	1 319 099,8	1 231 519,3	1 092 259,5
Debt securities issued to the public			
Bonds	901 379,1	699 076,2	680 648,5
Other	116 427,5	111 433,3	82 935,4
	1 017 806,6	810 509,6	763 583,9
Derivative financial instruments	8 416,1	4 536,3	5 952,7
Other liabilities			
Other liabilities	29 465,1	8 660,0	20 941,8
Deferred income and advances received	5 346,6	4 640,3	5 978,0
Subordinated liabilities			
Other	8 981,0	8 980,1	13 470,1
Deferred tax liabilities	9 562,8	9 442,4	9 294,3
EQUITY			
Basic capital	5 000,0	5 000,0	5 000,0
Other restricted reserves			
Reserve fund	22 799,9	22 796,7	22 796,7
Fair value reserve			
From cash flow hedging	-281,6	-591,2	-1 159,4
From fair value recognition	-340,9	-168,6	-416,0
Defined benefit pension plans	2 270,8	1 717,4	2 280,6
Unrestricted reserves			
Other reserves	22 923,5	22 923,5	22 923,5
Retained earnings	57 162,9	51 048,1	51 196,2
Profit for the period	2 617,1	6 118,0	3 805,8
	112 151,8	108 843,9	106 427,3
TOTAL LIABILITIES	**2 626 807,6**	**2 305 218,4**	**2 149 995,1**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(1000 €)	Basic capital	Reserve fund	Fair value reserve	Other reserves	Retained earnings	Total
Equity 1 January 2016	5 000,0	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	2,8	1 336,2	0,0	-267,4	1 071,5
Equity 30 June 2016	**5 000,0**	**22 797,5**	**705,1**	**22 923,5**	**55 001,1**	**106 427,3**
Equity 1 January 2017	5 000,0	22 796,7	957,6	22 923,5	57 166,1	108 843,9
Profit for the period					2 617,1	2 617,1
Other comprehensive income						
Profit use of funds		3,2			-3,2	0,0
Cash flow hedges						
Amount recognised in equity			-49,6			-49,6
Amount transferred to the income statement			436,7			436,7
Change in deferred taxes			-77,4			-77,4
Financial assets available for sale						
Change in fair value			462,4			462,4
Amount transferred to the income statement			-677,8			-677,8
Change in deferred taxes			43,1			43,1
Revaluation of defined benefit plans						
Actuarial gains / losses			691,7			691,7
Change in deferred taxes			-138,3			-138,3
Total other comprehensive income	0,0	3,2	690,7	0,0	-3,2	690,7
Equity 30 June 2017	**5 000,0**	**22 799,9**	**1 648,3**	**22 923,5**	**59 780,0**	**112 151,8**

CONSOLIDATED CASH FLOW STATEMENT

(1000 €)	**1-6/2017**	**1-6/2016**
Cash flow from operating activities		
Interest received	10 473,0	9 747,2
Interest paid	-5 221,8	-7 161,3
Fee income	2 014,9	2 160,8
Fee expenses	-51,4	-39,6
Net income from securities and foreign currency transactions	673,9	-882,9
Net income from available-for-sale financial assets	677,8	2 501,9
Net income from hedge accounting	-35,2	-14,7
Net income from investment properties	1 823,8	2 381,1
Other operating income	108,9	-4,8
Administrative expenses	-2 980,5	-6 112,7
Other operating expenses	-1 027,6	-709,5
Credit and guarantee losses	12,5	-3,9
Income taxes	-841,2	-598,5
Total net cash flow from operating activities	**5 626,9**	**1 263,2**
Operating assets increase (-) / decrease (+)		
Receivables from customers (lending)	-220 688,2	-225 838,2
Collateral, derivatives	709,3	-194,9
Investment properties	4 993,2	7 265,4
Operating assets increase (-) / decrease (+) total	**-214 985,6**	**-218 767,7**
Operating liabilities increase (+) / decrease (-)		
Liabilities to the public and public sector organisations (deposits)	90 049,2	21 858,5
Operating liabilities increase (+) / decrease (-) total	90 049,2	21 858,5
NET CASH FLOWS ACCRUED FROM OPERATING ACTIVITIES	**-119 309,5**	**-195 646,1**
Cash flows from investments		
Change in fixed assets	-205,5	-841,7
Equity investments increase (-) / decrease (+)	39,9	0,0
NET CASH FLOWS ACCRUED FROM INVESTMENTS	**-165,6**	**-841,7**
Casf flows from financing		
Bank loans, new withdrawals	80 165,1	71 523,5
Bank loans, repayments	-82 273,8	-90 821,9
Other liabilities, increase (-) / decrease (+)	-2 519,2	-2 577,3
Bonds, new issues	260 150,5	264 942,1
Bonds, repayments	-44 061,5	-95 826,9
Certificates on deposit, new issues	111 738,5	92 282,8
Certificates on deposit, repayments	-106 744,4	-78 798,8
Subordinated liabilities, new withdrawals	20,3	35,2
Subordinated liabilities, repayments	-19,4	-34,7
NET CASH FLOWS ACCRUED FROM FINANCING	**216 456,0**	**160 724,1**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**96 980,9**	**-35 763,7**
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	**514 279,9**	**419 129,5**
CHANGE IN CASH AND CASH EQUIVALENTS	**96 980,9**	**-35 763,7**

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 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 Statements.

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 the housing company Bostadsaktiebolaget Taos, of which the Group companies own 54.6 percent. 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. Preliminary impact assessment of IFRS 9 to financial status and capital in Hypo Group

IFRS 9 ”Financial Instruments” will come into effect on 1 January 2018 and will result in amendments to the financial statements, with regard to defining and calculating the impairment losses through profit or loss. Application of the standard is not expected to materially affect Group's consolidated financial statements nor capital adequacy position as lending is secured by mortgage collateral, average loan-to-value ratio in the loan portfolio is low and liquidity is invested in accordance with conservative counterparty limits. Changes in classification of Financial Instruments are not expected to materially affect Group's financial position, result nor equity. Similarly, the impact of changes in hedge accounting on financial position, result or equity is likely to remain marginal.

Implementation of IFRS 9 proceeds as scheduled. The implementation of expected credit loss impairment models (ECL-model) and system changes required by IFRS 9 is ongoing and hence this assessment involves an element of uncertainty. Hypo Group's loan portfolio on 30 June 2017 was EUR 2 billion (EUR 1.8 billion on 31 December 2016). Debt securities valued at fair value through other comprehensive income amounted to EUR 0.2 billion on 30 June 2017 (EUR 0.2 billion on 31 December 2016). During the period from 1 January 2017 to 30 June 2017 there have been no material changes in the risk profile of either the above-mentioned balance sheet items.

Expected credit losses

In Hypo Group's consolidated income statement, the switch from recognition of impairment and credit losses of the loan portfolio in accordance with IAS 39 to expected credit losses based on forecasting models in accordance with IFRS 9 will take place as of 1 January 2018. Data utilized in ECL model consists of information on i.a. amount of previously realized losses in Hypo's loan portfolio as well as on contract-related collaterals of liabilities. ECL model also utilizes estimates of the future value of the housing collaterals.

Concerning expected credit loss impairments of debt securities, ECL model utilizes credit ratings, probability of default and expected losses of counterparties.

Classification and measurement of financial instruments

The application of IFRS 9 requires classification of financial instruments based on business model into one of the following categories: financial instruments recognized at fair value through profit or loss, financial instruments recognized through other comprehensive income or financial instruments recognized at amortized cost. Changes in classification of Financial Instruments are not expected to materially affect Group's financial position, result nor equity. Agreement-based cash flows of Hypo Group's financial instruments consist of principal and interest payments. Depending on business model, the aim is to either gather the agreement-based cash flows and keep the financial instrument until the agreement expires or alternatively, gather the agreements-based cash flows and sell the financial instrument prior to its expiry.

Loans are classified as "financial instruments recognized at amortized cost".

Debt securities are classified as "financial instruments recognized at fair value through profit or loss". The exception to the above is applied in case debt securities are held for collecting agreement-based cash flows and sold prior to instrument's expiry whereupon changes in fair value are recognized through other comprehensive income.

Calculation and recognition of expected credit loss impairments will be applied to loans and debt securities recognized through other comprehensive income.

Financial liabilities are recognized at amortized cost and classified as "other liabilities".

Derivative contracts are always recognized at fair value and changes in fair value are recognized at fair value through profit or loss.

Hedge accounting

Hypo Group intends to adopt IFRS 9 hedge accounting. Hedge accounting method based on IFRS 9 is considered not to have any negative impact in the hedge accounting results in comparison to hedge accounting method based on IAS 39.

Disclosures in Financial Statements and in Interim Reports

Due to application of IFRS 9, Financial Statements covering the periods beginning on 1 January 2018 will set out extended qualitative and quantitative information on financial instruments.

Hypo Group updates the impact analysis of implementation of IFRS 9 and when necessary, further specifies the impact assessment on financial performance and capital on interim report 1 January – 30 September 2017 and in its financial statements 2017.

3. Issuances and repayments of debt securities and equity instruments

Issuances, repayments and repurchases of debt securities appear on cash flow statement for the period from 1 January to 30 June 2017.

4. Own funds and capital ratios

Hypo Group own funds and capital ratios	30.6.2017	31.12.2016	30.6.2016
Equity	112 151,8	108 843,9	106 427,3
Fair value reserve	281,6	591,2	1 159,4
Revaluation of defined pension plans	-2 270,8	-1 717,4	-2 280,6
Surplus from defined pension plans	-5 065,6	-4 528,0	-6 660,1
Common Equity Tier 1 (CET1) capital before regulatory adjustments	105 097,0	103 189,8	98 646,0
Intangible assets	-2 271,3	-2 250,1	-2 130,0
Common Equity Tier 1 (CET1) capital	102 825,7	100 939,6	96 516,0
Additional Tier 1 (AT1) capital	0,0	0,0	0,0
Tier 1 capital (T1 = CET1 + AT1)	102 825,7	100 939,6	96 516,0
Tier 2 (T2) capital	0,0	0,0	0,0
Total Capital (TC = T1 + T2)	102 825,7	100 939,6	96 516,0
Total risk-weighted items	781 265,4	743 003,7	748 585,8
of which credit risk	744 979,4	710 798,0	720 222,7
of which market risk	0,0	0,0	0,0
of which operational risk	28 964,9	28 964,9	28 363,1
of which other risks	7 321,1	3 240,8	0,0
Common Equity Tier 1 (CET1) in relation to risk-weighted items (%)	13,2	13,6	12,9
Tier 1 capital (T1) in relation to risk-weighted items (%)	13,2	13,6	12,9
Total capital (TC) in relation to risk-weighted items (%)	13,2	13,6	12,9
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 other risk-weighted items include liability value adjustment risk (CVA).

5. Contingent off-balance sheet commitments

Consolidated off-balance sheet commitments

(1000 €)	**30.6.2017**	**31.12.2016**	**30.6.2016**
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	299 262,7	301 014,8	362 472,3
Potential redemptions of partially owned housing units and those to be completed	208,7	563,2	832,2
Total	301 653,3	303 759,8	365 486,4

6. Fair values of financial instruments

(1000 €)		**30.6.2017**	**31.12.2016**	**30.6.2016**
Financial assets	Fair value determination principle	Fair value	Fair value	
Debt securities eligible for refinancing with central banks	A	281 257,5	291 927,8	274 480,5
Debt securities	A	0,0	0,0	2 073,0
Derivative contracts	B	258,6	138,4	1 022,9
Total		281 516,1	292 066,2	277 576,4
Financial liabilities				
Derivative contracts	B	8 416,1	4 536,3	5 952,7

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.

7. Information concerning asset encumbrance

30 Jun 2017

(1000 €)	Book value of encumbered assets	Fair value of encumbered assets	Book value of unencumbered assets	Fair value of unencumbered assets
A - Assets	883 608	52 503	1 743 200	229 232
Equity instruments	-		132	132
Debt securities	52 503	52 503	229 100	229 100
Other assets, including lending	831 105	-	1 513 968	-

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	79 763	100 949
Debt securities issued to the public	601 725	779 961
Derivative contracts	-	2 698
Total	681 488	883 608

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 tradable on the secondary market and eligible as ECB collateral pledged against a loan from the central bank, cover asset pool and collateral posted for derivative contracts.
Following Hypo's covered bond issuance in June 2017 (EUR 250 million), the amount of Group's encumbered assets increased by EUR 281.2 million in comparison to the reference period.
Encumbered assets totaled EUR 883.6 million of which EUR 780.0 million were registered in cover asset pool. Unencumbered debt securities that are tradable on the secondary market and eligible as ECB collateral and that may be used as collateral in monetary policy operations totaled EUR 229.1 on 30 June 2017.
EUR 962.7 million of unencumbered loans may 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
Debt securities issued to the public	359 634	494 070
Derivative contracts	-	1 420
Total	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 – 30 June 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 30 June 2017, 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 2017 and the result and cash flows of its operations for the six months period ended.

Helsinki 8 August 2017

PricewaterhouseCoopers Oy
Authorised Public Accountants

Jukka Paunonen
Authorised Public Accountant (KHT)

Sources:
Loans and deposits; Bank of Finland
Housing prices; May 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, %

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

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

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

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

Loans/deposits %

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

Deposits out of total funding, %

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

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

Long-term funding out of total funding, %

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

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

Short-term liquidity, months

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

Average number of personnel

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

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

Non-performing assets, % of the loan portfolio

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

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

LCR-ratio, %

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

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

Leverage Ratio, %

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

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

Common Equity Tier 1 (CET1) ratio %	$\frac{\text{Common Equity Tier 1, CET1}}{\text{Total risk}}$	x 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.