



HYPO

THE MORTGAGE SOCIETY OF FINLAND

Interim Report

1 January–30 June 2018

The Interim Report for the period of 1 January to 30 September 2018 will be published on 31 October 2018

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

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

The Interim Report has been approved by the Board of Directors of The Mortgage Society of Finland to be published on 10 August 2018. The Interim Report has been reviewed yet it has not been audited.

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

Hypo Group's January–June 2018

The home finance specialist Hypo Group's profitability of core business operations strengthened further.

CEO Ari Pauna:

“Urban citizens continue to show interest in owner-occupied housing and state of one's own housing company. Our loan portfolio increased to EUR 2.4 billion representing annual growth of 20 percent. Net interest income and competitiveness continue to improve.”

- Net interest income increased to EUR 5.8 million (EUR 4.0 million 1–6/2017)
- Non-performing loans remained low at 0.12% of loan book (0.13% 30 June 2017)
- Net fee and commission income was EUR 1.9 million (EUR 1.9 million 1–6/2017)
- Other income totaled EUR 1.3 million (EUR 3.1 million 1–6/2017)
- The contribution to the Financial Stability Authority, which was recognized in full during the first half year, increased total costs despite the cut of operating costs by over 3% compared to the previous year
- Common Equity Tier 1 (CET1) ratio, as calculated with standard and basic methods, was 12.3% (12.7% on 31 December 2017)

GROUP'S KEY FIGURES

(1000 €)	1–6/2018	1–6/2017	4–6/2018	4–6/2017	2017
Net interest income	5 775	3 951	3 070	2 182	8 991
Net fee and commission income	1 938	1 883	1 046	1 051	3 525
Total other income	1 313	3 069	281	1 710	5 190
Total expenses	-6 016	-5 769	-2 897	-2 840	-11 055
Operating profit	3 009	3 134	1 501	2 104	6 651
Receivables from the public and public sector entities	2 388 271	2 035 257	2 388 271	2 035 257	2 212 574
Deposits	1 627 075	1 293 090	1 627 075	1 293 090	1 540 400
Balance sheet total	2 956 543	2 626 808	2 956 543	2 626 808	2 792 489
Return on equity % (ROE)	4.3	4.7	4.3	6.3	4.9
Common Equity Tier 1 (CET1) ratio	12.3	13.2	12.3	13.2	12.7
Cost-to-income ratio,%	66.4	64.9	65.1	57.6	62.5
Non-performing assets, % of the loan portfolio	0.12	0.13	0.12	0.13	0.14
LTV-ratio, % / Loan to Value, average, %	36.4	38.3	36.4	38.3	37.4
Loans / deposits, %	146.8	157.4	146.8	157.4	143.6

Calculation of key figures and definitions are set out below.

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HYPO GROUP

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

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

Suomen AsuntoHypoPankki Oy deposit bank offers its customers deposit products, payment cards and residential land trustee services. Our customer promise – a *secure way for better living* – guides all of our operations. Over 29,500 customers, mainly in growth centers, have already taken us up on our promise. The deposit bank Suomen AsuntoHypoPankki Oy is a member of the Deposit Guarantee Fund and a wholly owned subsidiary of The Mortgage Society of Finland.

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

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

OPERATING ENVIRONMENT

The economic growth stayed on course, even though the peak seems to have passed according to confidence indicators. The European Central Bank decided to keep the key interest rates steady at least through the summer of 2019 and to continue asset purchases until the end of 2018. Short-term interest rates that follow closely to the ECB's policy rates remained negative without major changes. At the end of June, the most common reference rate for housing loans, 12-month Euribor, stood at minus 0.18 percent.

The Finnish economy continued to grow strongly in the first half of the year driven by domestic demand. Gross domestic product grew by over 3 percent and employment picked up markedly. Household and business confidence surveys remained elevated and construction grew on the back of strong urbanization trend. Exports of goods and industrial orders were soft in the spring. Economic news was dominated by fears of a trade war, which would bring clouds to the export outlook.

Polarization deepened in the housing markets as prices rose in Helsinki metropolitan area and Tampere, but decreased in sparsely populated areas as well as in the areas struggling with population. Housing loan stock rose by 2 percent from the previous year and the average interest rate on new mortgage loans stayed below 1 percent. Finnish FSA tightened the loan-to-value limit for homebuyers starting from July 2018. At the same time the loan stock of housing companies continued to rise by more than 10 percent on an annual basis.

New apartments boosted housing transaction figures. In Helsinki also the sales of old apartments picked up. Currently more homes are completed in Finland than in the past 25

years. Rents went up by more than 2 percent year-over-year, but new rental apartments in the cities and decreasing demand in the rural areas helped to smooth the development.

RESULTS AND PROFITABILITY

April–June 2018

Hypo Group's operating profit was EUR 1.5 million (EUR 2.1 million for April–June 2017). Income totaled EUR 4.4 million (EUR 4.9 million) and expenses EUR 2.9 million (EUR 2.8 million).

January–June 2018

Hypo Group's operating profit was EUR 3.0 million (EUR 3.1 million for January–June 2017). Income totaled EUR 9.0 million (EUR 8.9 million) and expenses EUR 6.0 million (EUR 5.8 million). An increasing amount of operating profit originated from core business operations. Net interest income continued to grow to EUR 5.8 million (EUR 4.0 million) due to loan portfolio growth and lower funding costs. Net fee and commission income totaled EUR 1.9 million (EUR 1.9 million).

Net income from investment properties (housing units and residential land) amounted to EUR 1.3 million (EUR 1.6 million). Operating profit included EUR 0.4 million less net income from investment properties than the reference financial period.

Group's cost-to-income ratio was 66.4% (64.9%). The contribution to the Financial Stability Authority, recognized in full during the first half year and based on the European Securities and Markets Authority's opinion (2015/ESMA/1462), increased total costs despite the cut of operating costs by over 3% compared to the previous year. Hypo Group

was charged a contribution of EUR 0.9 million (EUR 0.5 million).

Group's other comprehensive income EUR 2.7 million (EUR 3.3 million) includes EUR 2.5 million (EUR 2.6 million) profit for the financial period as well as the change in the fair value reserve EUR 0.2 million (EUR 0.1 million), the revaluation of defined benefit pension plans EUR 0.0 million (EUR 0.5 million) and adjustments of retained earnings EUR -0.1 million (EUR 0.0 million).

PERSONNEL AND DEVELOPMENT

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

ASSETS AND LIABILITIES

Lending

The loan portfolio grew to EUR 2,388.3 million (EUR 2,212.6 million on 31 December 2017) with annual growth of almost 20 percent.

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

At the end of the financial period, the average Loan-to-Value ratio of the loan portfolio continued to strengthen and was 36.4% (37.4% on 31 December 2017).

Amount of non-performing loans was low at EUR 2.9 million (EUR 3.1 million on 31 December 2011), representing 0.12% of the loan portfolio (0.14%).

Liquid assets and other receivables

At the end of the financial period, cash and cash equivalents in accordance with the cash flow statement, combined with current account and other binding credit facilities,

totalled EUR 492.9 million (EUR 506.1 million on 31 December 2017), which corresponds to 16.7% (18.1%) of the total assets. The cash and cash equivalents which totalled EUR 489.1 million consisted of assets distributed widely across various counterparties, and of debt securities tradable on the secondary market, of which 95.5% (91.5%) 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 34 months. The Liquidity Coverage Ratio was 169.3% (147.6%).

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

Hypo Group offers rental apartments and residential land for its customers. Hypo Group's properties are located in selected growth centers, mainly in the Helsinki Metropolitan Area. The property in Hypo Group's own use, the Mortgage House, is located in the center of Helsinki. The difference between the fair value and the book value of the properties totalled EUR 5.3 million (EUR 5.6 million on 31 December 2017).

Derivative contracts

The balance sheet value of derivative receivables was EUR 1.0 million on 30 June 2018 (EUR 0.3 million on 31 December 2017), and the value of liabilities was EUR 3.8 million (EUR 6.9 million).

Deposits and other funding

Deposits decreased to EUR 1,627.1 million (EUR 1,540.4 million on 31 December 2017). The share of deposits accounted for 57.9% (58.7%) of total funding.

The Mortgage Society of Finland issued a covered bond of EUR 250.0 million face value in April 2018.

The share of long-term funding of total funding was 39.9% on 30 June 2018 (36.3%).

The total funding at the end of the financial period was EUR 2,809.1 million (EUR 2,645.5 million).

RISK TOLERANCE AND RISK MANAGEMENT

At the end of the financial period, Hypo Group's equity amounted to EUR 118.5 million (EUR 115.8 million on 31 December 2017). The changes in equity during the period are presented in Group's statement of equity attached to this Interim Report.

Group's CET1 capital in relation to risk-weighted assets on 30 June 2018 was 12.3% (12.7% on 31 December 2017). Profit for the financial period is included in the Common Equity Tier 1 capital, based on the statement by the auditors. In measuring credit and counterparty risk, the standardized approach is used. Group's own funds are quantitatively and qualitatively on an excellent level in relation to Group's current and future business. At the end of the financial period, Group's Leverage Ratio was 3.5% (3.7%).

By a decision made on 29 June 2018, Finnish Financial Supervisory Authority has set an additional capital requirement of one (1) percent to The Mortgage Society of Finland. The requirement is set on the basis of structural features in the financial system (systemic risk buffer) and it shall be met with consolidated Common Equity Tier 1 capital. The decision takes effect on 1 July 2019.

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 Board of Director's Report attached to Financial Statements.

KEY EVENTS SINCE THE END OF THE FINANCIAL PERIOD

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

FUTURE OUTLOOK

Finnish economy and employment will grow in 2018, which will be reflected positively in the housing markets and in housing loan

demand. Urbanization will continue and support the housing market and loan demand in growth cities, while areas with declining population will suffer and polarization will deepen.

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

Helsinki, 10 August 2018

The Board

CONSOLIDATED INCOME STATEMENT, IFRS

(1000 €)	4-6/2018	4-6/2017	1-6/2018	1-6/2017	2017
Interest income	5 864.1	4 900.4	11 409.3	9 664.8	20 414.6
Interest expenses	-2 794.1	-2 717.9	-5 634.1	-5 714.0	-11 423.4
NET INTEREST INCOME	3 070.1	2 182.5	5 775.2	3 950.8	8 991.2
Income from equity investments				39.9	39.9
Fee and commission income	1 078.7	1 080.1	1 990.2	1 934.7	3 618.0
Fee and commission expenses	-32.7	-28.9	-52.6	-51.4	-93.3
Net income from securities and foreign currency transactions					
Net income from securities trading	-499.3	821.5	-77.0	673.9	421.4
Net income from financial assets available for sale		360.6		677.8	1 749.6
Net income from financial assets at fair value through other comprehensive income	69.8		88.3		
Net income from hedge accounting	-17.6	-32.7	-20.7	-35.2	-27.1
Net income from investment properties	739.2	449.6	1 329.6	1 603.9	2 924.0
Other operating income	-10.5	111.3	-7.4	108.9	82.4
Administrative expenses					
Personnel costs					
Wages and salaries	-1 257.9	-1 397.9	-2 537.0	-2 614.0	-4 968.5
Other personnel related costs					
Pension costs	-278.3	-276.4	-506.2	-508.8	-1 135.2
Other personnel related costs	-10.6	-15.4	-44.7	-81.9	-218.2
Other administrative expenses	-604.0	-655.0	-1 261.5	-1 361.2	-2 687.5
Total administrative expenses	-2 150.8	-2 344.7	-4 349.4	-4 566.0	-9 009.4
Depreciation and impairment losses on tangible and intangible assets	-123.3	-107.8	-252.0	-195.1	-475.0
Other operating expenses	-590.3	-394.1	-1 390.3	-1 020.2	-1 576.3
Impairment losses on loans and other commitments		6.7		12.5	6.0
Net gains/losses on derecognition of financial assets measured at amortised	-37.2		-33.2		
Net gains/losses on derecognition of other financial assets	5.1		8.7		
OPERATING PROFIT	1 500.9	2 104.0	3 009.4	3 134.4	6 651.4
Income taxes	-239.1	-356.9	-503.3	-517.2	-1 144.0
OPERATING PROFIT AFTER TAX	1 261.8	1 747.2	2 506.1	2 617.2	5 507.4
PROFIT FOR THE PERIOD	1 261.8	1 747.2	2 506.1	2 617.2	5 507.4

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, IFRS

(1000 €)	4-6/2018	4-6/2017	1-6/2018	1-6/2017	2017
Profit for the period	1 261.8	1 747.2	2 506.1	2 617.2	5 507.4
Other comprehensive income items					
Items that may be reclassified subsequently to income statement					
Change in fair value reserve					
Cash flow hedges	16.3	149.5	65.0	309.6	526.2
Available for sale financial assets		-12.2		-172.3	202.6
Financial assets at fair value through other comprehensive income	409.1		149.2		
	425.4	137.3	214.2	137.4	728.8
Items that may not be reclassified subsequently to the income statement					
Revaluation of defined benefit pension plans	51.9	44.4	6.1	553.3	742.1
Correction for previous year, IFRS 9			-57.8		
	51.9	44.4	-51.7	553.3	742.1
Total other comprehensive income items	477.3	181.7	162.5	690.7	1 471.0
COMPREHENSIVE INCOME FOR THE PERIOD	1 739.1	1 928.8	2 668.6	3 307.9	6 978.4

CONSOLIDATED BALANCE SHEET, IFRS

(1000 €)

	30.6.2018	31.12.2017	30.6.2017
ASSETS			
Cash	265 000.0	201 200.0	226 014.0
Debt securities eligible for refinancing with central banks			
Other	214 666.0	284 718.7	281 257.5
Receivables from credit institutions			
Repayable on demand	9 110.3	16 322.0	5 003.9
Other	363.0	77.5	2 004.5
	<u>9 473.3</u>	<u>16 399.5</u>	<u>7 008.3</u>
Receivables from the public and public sector entities			
Other than those repayable on demand	2 388 270.8	2 212 574.4	2 035 256.7
Shares and holdings	132.4	132.4	132.4
Derivative financial instruments	976.5	258.9	258.6
Intangible assets			
Other long-term expenditure	2 875.8	2 816.9	2 839.1
Tangible assets			
Investment properties and shares and holdings in invest	59 425.2	59 686.0	60 223.6
Other properties and shares and holdings in real estate (849.5	854.5	859.6
Other tangible assets	271.7	295.6	325.7
	<u>60 546.3</u>	<u>60 836.2</u>	<u>61 408.9</u>
Other assets	9 088.7	8 568.8	7 788.0
Accrued income and advances paid	5 380.0	4 843.8	4 592.9
Deferred tax receivables	133.0	139.3	251.2
TOTAL ASSETS	<u>2 956 542.8</u>	<u>2 792 488.8</u>	<u>2 626 807.6</u>

CONSOLIDATED BALANCE SHEET, IFRS

(1000 €)

	30.6.2018	31.12.2017	30.6.2017
LIABILITIES			
Liabilities to credit institutions			
Central banks	80 000.0	80 000.0	80 000.0
Credit institutions			
Other than those repayable on demand	11 984.0	13 873.8	35 977.7
	<u>91 984.0</u>	<u>93 873.8</u>	<u>115 977.7</u>
Liabilities to the public and public sector entities			
Deposits			
Repayable on demand	823 015.4	749 110.9	688 104.9
Other	804 059.8	791 289.6	604 984.6
	<u>1 627 075.2</u>	<u>1 540 400.5</u>	<u>1 293 089.6</u>
Other liabilities			
Other than those repayable on demand	18 680.7	19 545.5	26 010.3
	<u>1 645 755.9</u>	<u>1 559 946.0</u>	<u>1 319 099.8</u>
Debt securities issued to the public			
Bonds	1 005 870.6	852 292.2	901 379.1
Other	60 972.0	134 929.0	116 427.5
	<u>1 066 842.5</u>	<u>987 221.2</u>	<u>1 017 806.6</u>
Derivative financial instruments	3 806.4	6 944.6	8 416.1
Other liabilities			
Other liabilities	10 490.1	9 636.3	29 465.1
Deferred income and advances received	4 606.4	4 524.1	5 346.6
Subordinated liabilities			
Other	4 490.9	4 490.1	8 981.0
Deferred tax liabilities	10 075.5	10 030.3	9 562.8
EQUITY			
Basic capital	5 000.0	5 000.0	5 000.0
Other restricted reserves			
Reserve fund	22 810.7	22 799.9	22 799.9
Fair value reserve			
From cash flow hedging	0.0	-65.0	-281.6
From fair value recognition	183.2	34.0	-340.9
Defined benefit pension plans	2 465.7	2 459.6	2 270.8
Unrestricted reserves			
Other reserves	22 923.5	22 923.5	22 923.5
Retained earnings	62 601.8	57 162.9	57 162.9
Profit for the period	2 506.1	5 507.4	2 617.1
	<u>118 490.9</u>	<u>115 822.3</u>	<u>112 151.8</u>
TOTAL LIABILITIES	<u>2 956 542.8</u>	<u>2 792 488.8</u>	<u>2 626 807.6</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(1000 €)	Basic capital	Reserve fund	Fair value reserve	Other reserves	Retained earnings	Total
Equity 1 January 2017	5 000.0	22 796.7	957.6	22 923.5	57 166.1	108 843.9
Profit for the period					2 617.1	2 617.1
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
Equity 1 January 2018	5 000.0	22 799.9	2 428.6	22 923.5	62 670.3	115 822.3
Change in accounting policy (note 8.1)					-57.8	-57.8
Restated equity 1 January 2018	5 000.0	22 799.9	2 428.6	22 923.5	62 612.5	115 764.5
Profit for the period					2 506.1	2 506.1
Other comprehensive income						
Profit use of funds		10.7			-10.7	0.0
Cash flow hedges						
Amount recognised in equity			-44.2			-44.2
Amount transferred to the income statement			125.5			125.5
Change in deferred taxes			-16.3			-16.3
Financial assets at fair value through other						
Change in fair value			270.6			270.6
Amount transferred to the income statement			-88.3			-88.3
Change in deferred taxes			-33.1			-33.1
Revaluation of defined benefit plans						
Actuarial gains / losses			7.6			7.6
Change in deferred taxes			-1.5			-1.5
Total other comprehensive income	0.0	10.7	220.3	0.0	-10.7	220.3
Equity 30 June 2018	5 000.0	22 810.7	2 648.9	22 923.5	65 107.9	118 490.9

CONSOLIDATED CASH FLOW STATEMENT

(1000 €)	1-6/2018	1-6/2017
Cash flow from operating activities		
Interest received	11 621.5	10 473.0
Interest paid	-5 965.0	-5 221.8
Fee income	1 942.6	2 014.9
Fee expenses	-52.6	-51.4
Net income from securities and foreign currency transactions	-77.0	673.9
Net income from available-for-sale financial assets		677.8
Net income from financial assets at fair value through other comprehensive income	88.3	
Net income from hedge accounting	-20.7	-35.2
Net income from investment properties	1 020.2	1 823.8
Other operating income	-7.4	108.9
Administrative expenses	-5 118.8	-2 980.5
Other operating expenses	-1 397.5	-1 027.6
Credit and guarantee losses		12.5
Expected credit losses	-24.5	
Income taxes	-110.2	-841.2
Total net cash flow from operating activities	1 899.0	5 626.9
Operating assets increase (-) / decrease (+)		
Receivables from customers (lending)	-175 406.9	-220 688.2
Collateral, derivatives	266.5	709.3
Investment properties	273.9	4 993.2
Operating assets increase (-) / decrease (+) total	-174 866.5	-214 985.6
Operating liabilities increase (+) / decrease (-)		
Liabilities to the public and public sector organisations (deposits)	86 673.7	90 049.2
Operating liabilities increase (+) / decrease (-) total	86 673.7	90 049.2
NET CASH FLOWS ACCRUED FROM OPERATING ACTIVITIES	-86 293.7	-119 309.5
Cash flows from investments		
Change in fixed assets	-281.9	-205.5
Equity investments increase (-) / decrease (+)	0.0	39.9
NET CASH FLOWS ACCRUED FROM INVESTMENTS	-281.9	-165.6
Cash flows from financing		
Bank loans, new withdrawals	81.3	80 165.1
Bank loans, repayments	-1 971.1	-82 273.8
Other liabilities, increase (-) / decrease (+)	-823.3	-2 519.2
Bonds, new issues	298 524.8	260 150.5
Bonds, repayments	-148 458.7	-44 061.5
Certificates on deposit, new issues	40 362.6	111 738.5
Certificates on deposit, repayments	-114 319.7	-106 744.4
Subordinated liabilities, new withdrawals	9.0	20.3
Subordinated liabilities, repayments	-8.3	-19.4
NET CASH FLOWS ACCRUED FROM FINANCING	73 396.7	216 456.0
NET CHANGE IN CASH AND CASH EQUIVALENTS	-13 178.9	96 980.9
Cash and cash equivalents at the beginning of the period	502 318.1	417 299.0
Cash and cash equivalents at the end of the period	489 139.2	514 279.9
CHANGE IN CASH AND CASH EQUIVALENTS	-13 178.9	96 980.9

NOTES

1. Key accounting policies

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

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

The Interim Report has been approved by the Board of Directors of The Mortgage Society of Finland to be published on 10 August 2018. The Interim Report has been reviewed yet it has not been audited.

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

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

2. New standards and interpretations

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

2.1. IFRS 16 Leases

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

3. Issuances and repayments of debt securities and equity instruments

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

4. Capital Adequacy Information

Hypo Group own funds and capital ratios

(1000 €)	30.6.2018	31.12.2017	30.6.2017
Common Equity Tier 1 (CET1) capital: Instruments and reserves			
Capital instruments and the related share premium accounts	5 000.0	5 000.0	5 000.0
of which: Basic capital	5 000.0	5 000.0	5 000.0
Retained earnings	62 601.8	57 162.9	57 162.9
Accumulated other comprehensive income and other reserves	48 383.0	48 152.0	47 371.8
Independently reviewed interim profits net of any foreseeable charge or dividend	2 506.1	5 507.4	2 617.1
Common Equity Tier 1 (CET1) capital before regulatory adjustments	118 490.9	115 822.3	112 151.8
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
Intangible assets	-2 300.7	-2 253.5	-2 271.3
Deferred tax assets that rely on future profitability	-133.0	0.0	0.0
Fair value reserves related to gains or losses on cash flow hedges	0.0	65.0	281.6
Defined-benefit pension fund assets	-7 577.7	-7 563.1	-7 336.4
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-10 011.4	-9 751.6	-9 326.1
Common Equity Tier 1 (CET1) capital	108 479.6	106 070.7	102 825.7
Additional Tier 1 (AT1) capital	0.0	0.0	0.0
Tier 2 (T2) capital	0.0	0.0	0.0
Total capital (TC = T1 + T2)	108 479.6	106 070.7	102 825.7
Total risk weighted assets	884 431.0	836 775.6	781 265.4
Capital ratios and buffers			
Common Equity Tier 1 (CET1) as a percentage of total risk exposure amount	12.3	12.7	13.2
Tier 1 (T1) as a percentage of total risk exposure amount	12.3	12.7	13.2
Total capital as a percentage of total risk exposure amount	12.3	12.7	13.2
Institution specific buffer requirement, %	7.0	7.0	7.00
of which: capital conservation buffer requirement, %	2.5	2.5	2.5
of which: countercyclical buffer requirement, %	0.0	0.0	0.0
of which: systemic risk buffer requirement, %	0.0	0.0	0.0
of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer, %	0.0	0.0	0.0
Common Equity Tier 1 available to meet buffers, %	8.8	9.2	9.7

The own funds and capital adequacy are presented in accordance with the EU's Capital Requirements Regulation (575/2013).

The capital requirement for credit risk is calculated using the standard method.

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

The other risk-weighted items consist of credit valuation risk (CVA).

No restrictions applied in the EU's Capital Requirements Regulation (575/2013) compliant own funds calculation and no elements of own funds other than what is laid down in this regulation is used.

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

(1000 €)

30.6.2018

Credit and counterparty risks	Original exposure pre conversion factors	Exposure value	Risk weighted exposure amount after SME-supporting factor	Own funds requirement
Exposures to central governments or central banks	334 924.8	393 729.8	0.0	0.0
Exposures to regional governments or local authorities	89 726.3	99 612.9	0.0	0.0
Exposures to public sector entities	6 471.1	6 471.1	1 294.2	103.5
Exposures to credit institutions	29 910.6	38 405.5	12 232.5	978.6
Exposures to corporates	91 071.0	42 039.3	35 987.9	2 879.0
Retail exposures	63 027.4	18 811.8	12 739.0	1 019.1
Exposures secured by mortgages on immovable property	2 695 186.8	2 434 364.9	714 838.8	57 187.1
Exposures in default	2 418.8	2 271.0	2 295.0	183.6
Exposures in the form of covered bonds	40 429.2	40 429.2	4 042.9	323.4
Other items	63 377.4	63 377.4	63 377.4	5 070.2
	3 416 543.5	3 139 513.1	846 807.8	67 744.6
Operational risk			29 782.5	2 382.6
Other risks			7 840.7	627.3
All items in total	3 416 543.5	3 139 513.1	884 431.0	70 754.5

31.12.2017

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

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

5. Contingent liabilities and other off-balance sheet commitments

(1000 €)	30.6.2018	31.12.2017	30.6.2017
Commitments given on behalf of a customer for the benefit of a third party			
Guarantees and other liabilities	2 181.9	2 181.9	2 181.9
Irrevocable commitments given on behalf of a customer			
Granted but unclaimed loans	454 942.8	275 063.9	299 262.7
Purchase commitments of housing units	2 567.3	2 875.1	208.7
Total	459 692.0	280 120.8	301 653.3

6. Fair values of financial instruments

(1000 €)	30.6.2018	31.12.2017	30.6.2017
Debt securities eligible for refinancing with central banks	A 214 666.0	284 718.7	281 257.5
Derivative contracts	B 976.5	258.9	258.6
Total	215 642.4	284 977.6	281 516.1

Financial liabilities

Derivative contracts	B 3 806.4	6 944.6	8 416.1
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Derivative contracts consist of interest rate swaps with various counterparties for hedging purposes.

Fair value determination principles:

A: Quoted price on an active market

B: Verifiable price, other than quoted

C: Unverifiable market price

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

7. Related party information

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

The Mortgage Society of Finland sold one apartment to Department A of Hypo's pension fund. Trade was executed at market value 0,4 million EUR estimated by an external and independent real estate broker. Subsidiary Suomen Asuntohypopankki Oy has granted an absolute guarantee for its' parent, The Mortgage Society of Finland. Guarantee of EUR 95 million relates to mortgages originated by the Mortgage Society of Finland.

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

8. IFRS 9 expected credit losses by stage

(1000 €)	Net book value		Loss allowance	
	1 Jan 2018	1 Jan 2018	30 Jun 2018	30 Jun 2018
Receivables from the public and public sector entities				
Level 1, performing loans, no significant increase in credit risk	2 203 965.7	21.0	2 380 023.2	20.7
Level 2, performing loans with a significant increase in credit risk	5 600.4	3.0	5 301.6	43.2
Level 3, non-performing loans	3 007.4	309.6	2 945.9	302.9
Total	2 212 573.5	333.6	2 388 270.8	366.8
Debt instruments, FVOCI				
Level 1, performing loans, no significant increase in credit risk	213 488.7	25.3	164 429.0	16.6
Other assets, trade receivables				
Level 1, performing loans, no significant increase in credit risk	288.5	0.0	346.3	0.0
Off-balance sheet commitments; granted but undrawn loans				
Level 1, performing loans, no significant increase in credit risk	275 063.9	0.0	454 942.8	0.0

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

(1000 €)	Net expected credit losses with P&L impact	
	4-6/2018	1-6/2018
Receivables from the public and public sector entities		
Level 1, performing loans, no significant increase in credit risk	-2.8	0.3
Level 2, performing loans with a significant increase in credit risk	-43.2	-40.2
Level 3, non-performing loans	8.8	6.7
Total	-37.3	-33.2
Debt instruments, FVOCI		
Level 1, performing loans, no significant increase in credit risk	5.1	8.7
Other assets, trade receivables		
Level 1, performing loans, no significant increase in credit risk	0.0	0.0
Off-balance sheet commitments; granted but undrawn loans		
Level 1, performing loans, no significant increase in credit risk	0.0	0.0

9. IFRS 15 income distribution

On 1 January 2018, Hypo Group adopted the new standard IFRS 15 Revenue from Contracts with Customers, which superseded IAS 18 Revenue. Hypo Group's business operations constitute a single segment, retail banking. Applying IFRS 15 on 1 January 2018 did not give rise to any adjustments to the income statement, balance sheet, statement of changes in equity or cash flow statement for the comparative period 1 January – 30 June 2017. Applying IFRS 15 did not have any significant impact on revenue recognition principles. The Group applies IFRS 15 retrospectively.

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

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

Group's total income (1000 €)

	4-6/2018	4-6/2017	1-6/2018	1-6/2017	2017
Interest income	5 864.1	4 900.4	11 409.3	9 664.8	20 414.6
Interest expense	-2 794.1	-2 717.9	-5 634.1	-5 714.0	-11 423.4
Net interest income	3 070.0	2 182.5	5 775.2	3 950.8	8 991.2
Net fee income					
from lending operations	657.6	602.2	1 136.6	1 092.1	1 910.3
from land trustee services	311.8	361.6	633.0	621.7	1 262.5
from other operations	76.7	87.3	168.1	169.5	351.9
Total net fee income	1 046.0	1 051.2	1 937.7	1 883.3	3 524.7
Net income from treasury operations	-447.2	1 149.4	-9.4	1 316.4	2 143.9
Net income from investment properties	587.1	449.6	1 177.5	1 017.0	2 327.6
Capital gains on investment properties	152.0		152.0	586.9	596.5
Other income	-10.5	111.3	-7.4	148.8	82.4
Non-interest income	281.4	1 710.3	1 312.8	3 069.2	5 150.4
Total income	4 397.4	4 943.9	9 025.7	8 903.2	17 666.3

10. Information concerning asset encumbrance

30 June 2018

(1000 €)	Book value of encumbered assets	Fair value of encumbered assets	Book value of unencumbered assets	Fair value of unencumbered assets
A - Assets	1 277 919	1 277 919	1 678 624	1 678 624
Equity instruments			132	132
Debt securities	51 289	51 289	163 702	163 702
Other assets, including lending	1 226 630	1 226 630	1 514 789	1 514 789

B - Collateral received

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

	Liabilities associated with encumbered assets	Encumbered assets
C - Encumbered assets and associated liabilities		
Book value of selected financial liabilities	79 439	116 032
Debt securities issued to the public	906 270	1 156 537
Derivative contracts	227	5 351
Total	985 936	1 277 919

D - Information on the importance of encumbrance

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

Encumbered assets totaled EUR 1,277.9 million, out of which of covered bonds were EUR 1,225.0 million. Unencumbered debt securities that are tradable on the secondary market and eligible as ECB collateral and that can be used as collateral in monetary policy operations totaled EUR 163.7 million on 30 June 2018. EUR 920.2 million of unencumbered loans may be used as collateral for covered bonds.

31 December 2017

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

B - Collateral received

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

	Liabilities associated with encumbered assets	Encumbered assets
C - Encumbered assets and associated liabilities		
Book value of selected financial liabilities	79 600	100 827
Debt securities issued to the public	653 446	849 597
Derivative contracts		4 863
Total	733 046	955 287

D - Information on the importance of encumbrance

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

Sources:

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

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

Definitions of Alternative Performance Measures:

Operating profit/profit before appropriations and taxes, milj. €	Interest income + income from equity investments + fee income + net income from financial assets at fair value through other comprehensive income/net income from available-for-sale financial assets + net income from currency operations and securities trading + net income from hedge accounting + income from investment properties + other operating income – (administrative expenses + depreciation and impairment losses on tangible and intangible assets + other operating expenses+ expected credit losses/impairment losses on loans and other commitments)	
Return on equity % (ROE)	$\frac{\text{Operating profit - income taxes}}{\text{Equity + accumulated appropriations less deferred tax liabilities (average total at the beginning and end of the year)}}$	x 100
Cost-to-income ratio, %	$\frac{\text{Administrative expenses + depreciation and impairment losses on tangible and intangible assets + other operating expenses}}{\text{Net interest income + income from equity investments + net fee and commission income + net income from currency operations and securities trading + net income from financial assets at fair value through other comprehensive income/net income from available-for-sale financial assets + net income from hedge accounting + net income from investment properties + other operating income}}$	x 100
LTV-ratio (Loan to Value, average), %	$\frac{\text{Receivables from the public and public sector entities}}{\text{Fair value of collateral received against the receivables from the public and public sector entities}}$ Loan-to-value ratio is calculated by dividing the outstanding loan balance with the fair value of the total amount of the collaterals allocated to the loan. Only housing and residential property collaterals are taken into account. The average LTV ratio is the weighted average of individual loan-to-value ratios.	x 100
Loans/deposits %	$\frac{\text{Receivables from the public and public sector entities}}{\text{Deposits}}$	x 100
Deposits out of total funding, %	$\frac{\text{Deposits}}{\text{Total funding}}$ Total funding includes liabilities to credit institutions, liabilities to the public and public sector entities, debt securities issued to the public as well as subordinated liabilities.	x 100
Long-term funding out of total funding, %	$\frac{\text{Total funding with a remaining maturity of 12 months}}{\text{Total funding}}$ Total funding includes liabilities to credit institutions, liabilities to the public and public sector entities, debt securities issued to the public as well as subordinated liabilities.	x 100
Short-term liquidity, months	Coverage of short-term liquidity to wholesale funding cash flows (difference of days multiplied with 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	$\frac{\text{Receivables from the public and public sector entities deemed unlikely to be paid + receivables past due and unpaid over 90 days}}{\text{Receivables from the public and public sector entities}}$ Non-performing assets are presented in accordance with the EU's Capital Requirements Regulation (575/2013).	x 100
LCR-ratio, %	$\frac{\text{Liquid assets}}{\text{Outflow of liquidity – Inflow of liquidity (within 30 days)}}$ LCR-ratio is calculated in accordance with the EU's Capital Requirement Regulation CRR (EU 575/2013).	x 100
Leverage Ratio, %	$\frac{\text{Tier 1 Capital}}{\text{Total exposure}}$ Leverage Ratio, % is calculated in accordance with the EU's Capital Requirement Regulation CRR (EU 575/2013).	x 100
Common Equity Tier 1 (CET1) ratio %	$\frac{\text{Common Equity Tier 1, CET1}}{\text{Total risk}}$ The capital requirement for total risk is calculated using the standard method. The capital requirement for operational risk is calculated using the basic method.	x 100

Description of Alternative Performance Measures:

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

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

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

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

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

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

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

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

Average number of personnel describes the personnel resources available.

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

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

Introduction

We have performed a review of the Mortgage Society of Finland's balance sheet of 30 June 2018, 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 2018 and the result and cash flows of its operations for the six months period ended.

Helsinki 10 August 2018

PricewaterhouseCoopers Oy
Authorised Public Accountants

Jukka Paunonen
Authorised Public Accountant (KHT)