



HYPO

# THE MORTGAGE SOCIETY OF FINLAND

## Interim Report 1 January–31 March 2019

The Interim Report for the period of 1 January to 30 June 2019 will be published on 12 August 2019

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 2018 and Stock Exchange Releases published during period 1 January to 31 March 2019.

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

The Interim Report has been approved by the Board of Directors of The Mortgage Society of Finland to be published on 26 April 2019.

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

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





areas will smooth the development in 2019 as well.

In 2018 the economic growth was visible in the labor market. The number of employed persons rose by 40 000 from the previous year, the unemployment rate fell below 7 percent and the employment rate rose above 72 percent. Earnings are increasing by 2 percent while inflation remains close to 1 percent.

## **RESULTS AND PROFITABILITY**

### **January–March 2019**

Hypo Group's operating profit was EUR 1.4 million (EUR 1.5 million for January–March 2018). Income totaled EUR 5.1 million (EUR 4.6 million) and expenses EUR 3.6 million (EUR 3.1 million). An increasing amount of operating profit originated from core business operations. Net interest income continued to grow to EUR 3.4 million (EUR 2.7 million) due to loan portfolio growth and lower funding costs. Net fee and commission income totaled EUR 0.8 million (EUR 0.9 million).

Net income from investment properties (housing units and residential land) amounted to EUR 0.8 million (EUR 0.6 million).

Group's cost-to-income ratio was 71.6% (67.6%).

Group's other comprehensive income EUR 1.7 million (EUR 0.9 million) includes EUR 1.1 million (EUR 1.2 million) profit for the financial period as well as the change in the fair value reserve EUR 0.2 million (EUR -0.2 million), the revaluation of defined benefit pension plans EUR 0.4 million (EUR -0.0 million) and adjustments of retained earnings EUR 0.0 million (EUR -0.1 million).

## **PERSONNEL AND DEVELOPMENT**

On 31 March 2019, the number of permanent personnel was 51 (47 on 31 December 2018). These figures do not include the CEO and the deputy to the CEO.

## **ASSETS AND LIABILITIES**

### **Lending**

The loan portfolio grew to EUR 2,613.8 million (EUR 2,588.9 million on 31 December 2018).

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 35.6% (35.8% on 31 December 2018).

Amount of non-performing loans was low at EUR 2.3 million (EUR 1.8 million on 31 December 2018), representing 0.09% of the loan portfolio (0.07%).

### **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 666.6 million (EUR 442.4 million on 31 December 2018), which corresponds to 19.7% (14.2%) of the total assets. The cash and cash equivalents which totaled EUR 662.9 million consisted of assets distributed widely across various counterparties, and of debt securities tradable on the secondary market, of which 96.2% (95.4%) had a credit rating of at least 'AA-' or were of equivalent credit quality and 92.2% (95.9%) were ECB repo eligible. Liquidity covers wholesale funding cash flows for the following 48 months. The Liquidity Coverage Ratio was 138.0% (122.6%).

The defined benefit plans surplus of EUR 5.8 million (EUR 5.3 million on 31 December 2018) from the Mortgage Society of Finland's pension fund has been recognized in Group's other assets.

Hypo Group offers rental apartments and residential land for its customers. Hypo Group's properties are located in selected growth centers, mainly in the Helsinki Metropolitan Area. The property in Hypo Group's own use, the Mortgage House, is located in the center of Helsinki. The difference between the fair value and the book value of the properties totaled EUR 5.0 million (EUR 5.1 million on 31 December 2018). Group's properties carry no housing company loans.

#### **Derivative contracts**

The balance sheet value of derivative receivables was EUR 12.4 million on 31 March 2019 (EUR 4.6 million on 31 December 2018), and the value of liabilities was EUR 5.9 million (EUR 3.2 million).

#### **Deposits and other funding**

Deposits decreased to EUR 1,661.7 million (EUR 1,718.2 million on 31 December 2018). The share of deposits accounted for 51.8% (58.2%) of total funding.

The share of long-term funding of total funding was 42.9% on 31 March 2019 (36.2%).

The total funding at the end of the financial period was EUR 3,206.1 million (EUR 2,954.6 million).

#### **RISK TOLERANCE AND RISK MANAGEMENT**

At the end of the financial period, Hypo Group's equity amounted to EUR 123.1 million (EUR 121.4 million on 31 December

2018). The changes in equity during the period are presented in Group's statement of equity attached to this Report.

Group's CET1 capital in relation to risk-weighted assets on 31 March 2019 was 12.2% (12.1% on 31 December 2018). 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 3.3% (3.5%).

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. Additional capital requirement 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 risk management practices and on capital adequacy is published with the Annual Financial Statements.

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

Since the end of the financial period of 1 January – 31 March 2019, no significant changes have occurred in the outlook or financial standing of the Mortgage Society of Finland or its Group.

Evaluation on the renewal of the group's core IT platform after change of control in Oy

Samlink Ab is ongoing. In the evaluation, there are several viable alternatives in addition to the new platform offered by Samlink. The decision in the matter is targeted to take place by the end of 2019.

## **FUTURE OUTLOOK**

Finnish economy grows at a slower pace but employment continues to improve in the next 12 months. Housing loan demand is supported by low interest rates. Urbanization will continue and support the housing market and loan demand in growth cities, while areas with declining population will suffer and polarization between and within areas will deepen. Newbuilding will increase the importance of the largest cities.

Hypo Group focuses on its core business and expects the share of profit made by it to continue to rise following the increase net interest and net fee income.

Capital adequacy is expected to remain unchanged and the operating profit for 2019 is estimated to reach at least the 2018 level.

Helsinki, 26 April 2019

The Board

## CONSOLIDATED INCOME STATEMENT, IFRS

(1000 €)	1-3/2019	1-3/2018	2018
Interest income	6 131.1	5 545.2	23 614.8
Interest expenses	-2 738.6	-2 840.0	-11 284.1
<b>NET INTEREST INCOME</b>	<b>3 392.5</b>	<b>2 705.2</b>	<b>12 330.8</b>
Income from equity investments			
Fee and commission income	796.1	911.5	3 887.3
Fee and commission expenses	-12.5	-19.8	-92.5
Net income from securities and foreign currency transactions			
Net income from securities trading	73.1	422.3	-1 144.7
Net income from financial assets available for sale			
Net income from financial assets at fair value through other comprehensive income	118.9	18.6	291.4
Net income from hedge accounting	-55.0	-3.1	33.2
Net income from investment properties	788.8	590.4	2 930.5
Other operating income	-9.8	3.1	-12.9
Administrative expenses			
Personnel costs			
Wages and salaries	-1 297.0	-1 279.1	-4 920.5
Other personnel related costs			
Pension costs	-220.5	-227.9	-995.8
Other personnel related costs	-19.6	-34.1	-109.0
Other administrative expenses	-740.7	-657.4	-2 663.5
Total administrative expenses	-2 277.8	-2 198.6	-8 688.8
Depreciation and impairment losses on tangible and intangible assets	-180.7	-128.7	-516.1
Other operating expenses	-1 187.2	-800.0	-1 830.3
Impairment losses on loans and other commitments			
Net gains/losses on derecognition of financial assets measured at amortised cost	0.8	4.0	-31.3
Net gains/losses on derecognition of other financial assets	0.7	3.5	8.7
<b>OPERATING PROFIT</b>	<b>1 447.9</b>	<b>1 508.5</b>	<b>7 165.2</b>
Income taxes	-293.0	-264.2	-1 216.8
<b>OPERATING PROFIT AFTER TAX</b>	<b>1 154.9</b>	<b>1 244.3</b>	<b>5 948.5</b>
<b>PROFIT FOR THE PERIOD</b>	<b>1 154.9</b>	<b>1 244.3</b>	<b>5 948.5</b>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, IFRS

(1000 €)	1-3/2019	1-3/2018	2018
Profit for the period	1 154.9	1 244.3	5 948.5
Other comprehensive income items			
Items that may be reclassified subsequently to income statement			
Change in fair value reserve			
Cash flow hedges	0.0	48.8	65.0
Available for sale financial assets			
Financial assets at fair value through other comprehensive income	196.6	-259.9	-114.2
	196.6	-211.1	-49.2
Items that may not be reclassified subsequently to the income statement			
Revaluation of defined benefit pension plans	386.4	-45.8	-254.8
Correction for previous year, IFRS 9	0.0	-57.8	-57.8
	386.4	-103.6	-312.6
Total other comprehensive income items	583.0	-314.8	-361.7
<b>COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>1 737.9</b>	<b>929.5</b>	<b>5 586.7</b>

**CONSOLIDATED BALANCE SHEET, IFRS**

(1000 €)	31.3.2019	31.12.2018	31.3.2018
<b>ASSETS</b>			
Cash	401 500.0	223 600.0	74 200.0
Debt securities eligible for refinancing with central banks			
Other	244 801.8	201 166.5	281 672.5
Receivables from credit institutions			
Repayable on demand	6 500.0	5 338.7	7 151.2
Other	60.4	60.8	25.7
	6 560.5	5 399.5	7 176.9
Receivables from the public and public sector entities			
Other than those repayable on demand	2 613 753.6	2 588 907.9	2 266 397.0
Debt securities			
From public sector entities	10 003.9	8 506.0	0.0
	10 003.9	8 506.0	0.0
Shares and holdings	132.4	132.4	132.4
Derivative financial instruments	12 387.5	4 562.6	720.2
Intangible assets			
Other long-term expenditure	2 801.6	2 788.0	2 863.1
Tangible assets			
Investment properties and shares and holdings in investment properties	60 023.0	61 420.5	59 706.5
Other properties and shares and holdings in real estate corporations	841.9	844.4	852.0
Other tangible assets	237.8	258.0	279.3
	61 102.7	62 522.9	60 837.8
Other assets	14 306.7	10 626.0	7 826.9
Accrued income and advances paid	8 216.5	5 456.6	7 808.1
Deferred tax receivables	71.8	148.5	190.9
<b>TOTAL ASSETS</b>	<b>3 375 639.0</b>	<b>3 113 816.9</b>	<b>2 709 825.7</b>

**CONSOLIDATED BALANCE SHEET, IFRS**

(1000 €)	31.3.2019	31.12.2018	31.3.2018
<b>LIABILITIES</b>			
Liabilities to credit institutions			
Central banks	80 000.0	80 000.0	80 000.0
Credit institutions			
Other than those repayable on demand	9 324.8	10 101.5	13 097.8
	89 324.8	90 101.5	93 097.8
Liabilities to the public and public sector entities			
Deposits			
Repayable on demand	822 894.9	806 059.4	755 649.0
Other	838 819.0	912 106.3	700 483.5
	1 661 714.0	1 718 165.6	1 456 132.6
Other liabilities			
Other than those repayable on demand	16 155.9	16 917.6	19 382.2
	1 677 869.9	1 735 083.3	1 475 514.8
Debt securities issued to the public			
Bonds	1 267 905.0	960 976.9	852 138.2
Other	170 973.4	168 435.6	134 940.3
	1 438 878.5	1 129 412.5	987 078.5
Derivative financial instruments	5 907.1	3 215.5	6 983.6
Other liabilities			
Other liabilities	23 056.1	17 119.0	9 259.9
Deferred income and advances received	7 574.5	7 663.3	6 636.6
Subordinated liabilities			
Other	0.0	0.0	4 490.3
Deferred tax liabilities	9 881.3	9 812.9	10 012.5
<b>EQUITY</b>			
Basic capital	5 000.0	5 000.0	5 000.0
Other restricted reserves			
Reserve fund	25 490.5	22 810.7	22 810.7
Fair value reserve			
From cash flow hedging	0.0	0.0	-16.3
From fair value recognition	116.4	-80.2	-225.9
Defined benefit pension plans	2 591.2	2 204.8	2 413.7
Unrestricted reserves			
Other reserves	22 923.5	22 923.5	22 923.5
Retained earnings	65 870.4	62 601.8	62 601.8
Profit for the period	1 154.9	5 948.5	1 244.3
	123 146.9	121 409.0	116 751.8
<b>TOTAL LIABILITIES</b>	<b>3 375 639.0</b>	<b>3 113 816.9</b>	<b>2 709 825.7</b>



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(1000 €)	Basic capital	Reserve fund	Fair value reserve	Other reserves	Retained earnings	Total
<b>Equity 1 January 2018</b>	5 000.0	22 799.9	2 428.6	22 923.5	62 670.3	115 822.3
Change in accounting policy					-57.8	-57.8
<b>Restated equity 1 January 2018</b>	5 000.0	22 799.9	2 428.6	22 923.5	62 612.5	115 764.5
Profit for the period					1 244.3	1 244.3
Profit use of funds		10.7			-10.7	0.0
Cash flow hedges						
Amount recognised in equity			-22.0			-22.0
Amount transferred to the income statement			82.9			82.9
Change in deferred taxes			-12.2			-12.2
Financial assets at fair value through other comprehensive income						
Change in fair value			-311.8			-311.8
Amount transferred to the income statement			-18.6			-18.6
Change in deferred taxes			70.4			70.4
Revaluation of defined benefit plans						
Actuarial gains / losses			-57.3			-57.3
Change in deferred taxes			11.5			11.5
Total other comprehensive income	0.0	10.7	-257.0	0.0	-10.7	-257.0
<b>Equity 31 March 2018</b>	<b>5 000.0</b>	<b>22 810.7</b>	<b>2 171.6</b>	<b>22 923.5</b>	<b>63 846.1</b>	<b>116 751.8</b>
<b>Equity 1 January 2019</b>	5 000.0	22 810.7	2 124.6	22 923.5	68 550.2	121 409.0
Profit for the period					1 154.9	1 154.9
Other comprehensive income						
Profit use of funds		2 679.9			-2 679.9	0.0
Financial assets at fair value through other						
Change in fair value			364.8			364.8
Amount transferred to the income statement			-118.9			-118.9
Change in deferred taxes			-49.3			-49.3
Revaluation of defined benefit plans						
Actuarial gains / losses			483.0			483.0
Change in deferred taxes			-96.6			-96.6
Total other comprehensive income	0.0	2 679.9	583.0	0.0	-2 679.9	583.0
<b>Equity 31 March 2019</b>	<b>5 000.0</b>	<b>25 490.5</b>	<b>2 707.6</b>	<b>22 923.5</b>	<b>67 025.3</b>	<b>123 146.9</b>

## CONSOLIDATED CASH FLOW STATEMENT

(1000 €)	1–3/2019	1–3/2018
<b>Cash flow from operating activities</b>		
Interest received	3 333.4	4 022.4
Interest paid	-1 827.3	-1 923.3
Fee income	1 158.1	918.0
Fee expenses	-12.5	-19.8
Net income from securities and foreign currency transactions	73.1	422.3
Net income from available-for-sale financial assets		
Net income from financial assets at fair value through other comprehensive income	118.9	18.6
Net income from hedge accounting	-55.0	-3.1
Net income from investment properties	326.6	276.9
Other operating income	-9.8	3.1
Administrative expenses	-2 618.9	-1 898.3
Other operating expenses	-1 193.8	-805.6
Credit and guarantee losses		
Expected credit losses	1.9	7.6
Income taxes	-1 289.4	-3.8
<b>Total net cash flow from operating activities</b>	<b>-1 994.7</b>	<b>1 015.0</b>
<b>Operating assets increase (-) / decrease (+)</b>		
Receivables from customers (lending)	-27 966.4	-54 502.3
Collateral, derivatives	7 550.1	200.1
Investment properties	271.9	-469.7
<b>Operating assets increase (-) / decrease (+) total</b>	<b>-20 144.4</b>	<b>-54 771.9</b>
<b>Operating liabilities increase (+) / decrease (-)</b>		
Liabilities to the public and public sector organisations (deposits)	-56 451.7	-84 268.9
<b>Operating liabilities increase (+) / decrease (-) total</b>	<b>-56 451.7</b>	<b>-84 268.9</b>
<b>NET CASH FLOWS ACCRUED FROM OPERATING ACTIVITIES</b>	<b>-78 590.8</b>	<b>-138 025.7</b>
<b>Cash flows from investments</b>		
Change in fixed assets	-171.6	-156.0
Equity investments increase (-) / decrease (+)	0.0	0.0
<b>NET CASH FLOWS ACCRUED FROM INVESTMENTS</b>	<b>-171.6</b>	<b>-156.0</b>
<b>Cash flows from financing</b>		
Bank loans, new withdrawals	27.4	43.2
Bank loans, repayments	-804.1	-819.2
Other liabilities, increase (+) / decrease (-)	-767.4	-106.5
Bonds, new issues	336 688.3	26 225.8
Bonds, repayments	-34 725.5	-26 441.7
Certificates on deposit, new issues	83 678.6	40 212.1
Certificates on deposit, repayments	-81 140.8	-40 200.8
Subordinated liabilities, new withdrawals	0.0	5.0
Subordinated liabilities, repayments	0.0	-4.8
<b>NET CASH FLOWS ACCRUED FROM FINANCING</b>	<b>302 956.6</b>	<b>-1 086.9</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>224 194.1</b>	<b>-139 268.7</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>438 672.0</b>	<b>502 318.1</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>662 866.1</b>	<b>363 049.5</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>224 194.1</b>	<b>-139 268.7</b>

## NOTES

### 1. Key accounting policies

This Interim Report applies the same IFRS accounting policies as the Group's Financial Statements on 31 December 2018, with the exception of changes in accounting policies as a result of the new IFRS 16 standard adopted on 1 January 2019. The effects of the adoption of IFRS 16 are described in more detail in Note 3.1. 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 2019.

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 2018 and Stock Exchange Releases published during 1 January to 31 March 2019. The figures in the tables in the Report are presented in thousands of euros.

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

The Interim Report has been approved by the Board of Directors of The Mortgage Society of Finland to be published on 26 April 2019. The Interim Report has not been audited.

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

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

### 2. Issuances and repayments of debt securities and equity instruments

Issuances, repayments and repurchases of debt securities appear on cash flow statement for the period from 1 January to 31 March 2019. Equity instruments have not been issued nor repaid during the period from 1 January to 31 March 2019.

### 3. Changes in accounting policies

#### 3.1 IFRS 16 Leases

Hypo Group began to apply IFRS 16 as of 1 January 2019. Hypo Group uses the simplified retrospective approach; the prior-year figures will not be adjusted.

##### *Hypo Group as lessee*

Practical expedients on assessing whether the leases are onerous and excluding initial costs from the measurement of the right-of-use asset at the time of initial application are also used.

As IFRS 16 requires Hypo Group as lessee recognizes assets for the right of use received and liabilities for the payment obligations entered into for all leases. Hypo Group uses relief options provided for leases of low-value assets. For leases that have been classified to date as operative leases in accordance with IAS 17, the lease liability is recognized at the present value of the remaining payments or when the lease period is not fixed term an appropriate period is determined based on economic and business factors. The remaining lease payments are discounted using the lessee's incremental

borrowing rate. The right-of-use assets will be measured at the amount of the lease liability. Possible advance payments and liabilities will also be accounted for as well as initial direct costs.

The depreciation charges on the right-of-use assets and the interest expense from unwinding of the discount on the lease liabilities will be recognized on the income statement.

The change in the presentation of operating leases will result in an equivalent improvement in cash flows from operating activities and a decline in cash flows from financing activities.

#### *Hypo Group as lessor*

All the leases where Hypo in which Hypo Group is the lessor are classified as operative leases. The leased assets continue to be presented on the Hypo Group's balance sheet and the lease payments are generally recognized as income on a straight-line basis over the lease term.

#### **Reconciliation of Lease Liabilities pursuant to IFRS 16**

(1000€)

Minimum lease payments under operating leases as of December 31. 2018	26,5
Relief option for leases of low-value assets	-3,4
Effect of discounting at the incremental borrowing rate as of January 1. 2019	-3,2
<u>Additional lease liabilities with non-fixed term as of January 1. 2019 *</u>	<u>373,4</u>
<u>Lease liabilities due to the initial application of IFRS 16 as of January 1. 2019</u>	<u>393,3</u>

\* When the lease period is not fixed term an appropriate period is determined based on economic and business factors.

The weighted-average incremental borrowing rate for lease liabilities initially recognized as of January 1. 2019, was 3,0 % p.a.

#### 4. Capital Adequacy Information

##### Hypo Group own funds and capital ratios

(1000 €)	31.3.2019	31.12.2018
<b>Common Equity Tier 1 (CET1) capital: Instruments and reserves</b>		
Capital instruments and the related share premium accounts	5 000.0	5 000.0
of which: Basic capital	5 000.0	5 000.0
Retained earnings	65 870.4	62 601.8
Accumulated other comprehensive income and other reserves	51 121.6	47 858.8
Independently reviewed interim profits net of any foreseeable charge or dividend	1 154.9	5 948.5
Common Equity Tier 1 (CET1) capital before regulatory adjustments	123 146.9	121 409.0
<b>Common Equity Tier 1 (CET1) capital: regulatory adjustments</b>		
Intangible assets	-2 241.3	-2 230.4
Deferred tax assets that rely on future profitability	-71.8	-148.5
Value adjustments due to the requirements for prudent valuation	-277.9	-219.9
Fair value reserves related to gains or losses on cash flow hedges	0.0	0.0
Defined-benefit pension fund assets	-7 237.2	-6 467.9
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-9 828.2	-9 066.7
Common Equity Tier 1 (CET1) capital	113 318.7	112 342.3
Additional Tier 1 (AT1) capital	0.0	0.0
Tier 2 (T2) capital	0.0	0.0
Total capital (TC = T1 + T2)	113 318.7	112 342.3
Total risk weighted assets	929 631.2	925 239.5
<b>Capital ratios and buffers</b>		
Common Equity Tier 1 (CET1) as a percentage of total risk exposure amount	12.2	12.1
Tier 1 (T1) as a percentage of total risk exposure amount	12.2	12.1
Total capital as a percentage of total risk exposure amount	12.2	12.1
Institution specific buffer requirement, %	7.0	7.0
of which: capital conservation buffer requirement, %	2.5	2.5
of which: countercyclical buffer requirement, %	0.0	0.0
of which: systemic risk buffer requirement, %	0.0	0.0
of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer, %	0.0	0.0
Common Equity Tier 1 available to meet buffers, %	8.7	8.6

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 €)

**31.3.2019**

	Original exposure pre conversion factors	Exposure value	Risk weighted exposure amount after SME-supporting factor	Own funds requirement
<b>Credit and counterparty risks</b>				
Exposures to central governments or central banks	277 765.2	575 511.6	0.0	0.0
Exposures to regional governments or local authorities	100 496.5	111 347.6	0.0	0.0
Exposures to public sector entities	5 854.8	5 921.1	1 184.2	94.7
Exposures to credit institutions	45 218.0	53 062.8	18 880.0	1 510.4
Exposures to corporates	84 520.0	39 352.3	32 561.0	2 604.9
Retail exposures	61 271.7	15 730.4	10 581.8	846.5
Exposures secured by mortgages on immovable property	2 729 227.5	2 591 693.2	759 402.3	60 752.2
Exposures in default	1 577.7	1 441.7	1 470.0	117.6
Exposures in the form of covered bonds	23 512.7	23 512.7	2 351.3	188.1
Other items	61 082.3	61 082.3	61 082.3	4 886.6
	<b>3 390 526.2</b>	<b>3 478 655.6</b>	<b>887 513.0</b>	<b>71 001.0</b>
Operational risk			32 506.8	2 600.5
Other risks			9 611.5	768.9
<b>All items in total</b>	<b>3 390 526.2</b>	<b>3 478 655.6</b>	<b>929 631.2</b>	<b>74 370.5</b>

**31.12.2018**

	Original exposure pre conversion factors	Exposure value	Risk weighted exposure amount after SME-supporting factor	Own funds requirement
<b>Credit and counterparty risks</b>				
Exposures to central governments or central banks	277 765.2	337 111.0	0.0	0.0
Exposures to regional governments or local authorities	100 496.5	110 003.0	0.0	0.0
Exposures to public sector entities	5 854.8	5 854.8	1 171.0	93.7
Exposures to credit institutions	24 169.1	32 658.5	11 652.1	932.2
Exposures to corporates	84 510.4	39 188.4	32 584.8	2 606.8
Retail exposures	62 615.0	16 635.4	11 220.0	897.6
Exposures secured by mortgages on immovable property	2 716 899.7	2 572 499.5	755 204.2	60 416.3
Exposures in default	1 391.4	1 339.6	1 359.4	108.8
Exposures in the form of covered bonds	40 280.2	40 280.2	4 028.0	322.2
Other items	67 952.5	67 952.5	67 952.5	5 436.2
	<b>3 381 934.8</b>	<b>3 223 522.8</b>	<b>885 172.0</b>	<b>70 813.8</b>
Operational risk			32 506.8	2 600.5
Other risks			7 560.7	604.9
<b>All items in total</b>	<b>3 381 934.8</b>	<b>3 223 522.8</b>	<b>925 239.5</b>	<b>74 019.2</b>

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 €)	31.3.2019	31.12.2018
Commitments given on behalf of a customer for the benefit of a third party		
Guarantees and other liabilities	2 181.9	2 181.9
Irrevocable commitments given on behalf of a customer		
Granted but unclaimed loans	254 223.9	269 244.0
Purchase commitments of housing units	2 262.6	2 262.6
Total	258 668.4	273 688.5

## 6. Fair values of financial instruments

(1000 €)		31.3.2019	31.12.2018
	Fair value determination principle	Fair value	Fair value
<b>Financial assets</b>			
Debt securities eligible for refinancing with central banks	A	244 801.8	201 166.5
Debt securities	A	10 003.9	8 506.0
Derivative contracts	B	12 387.5	4 562.6
Total		267 193.2	214 235.1
<b>Financial liabilities</b>			
Derivative contracts	B	5 907.1	3 215.5

Derivative contracts consist of interest rate swaps with various counterparties for hedging purposes.

Fair value determination principles:

A: Quoted price on an active market

B: Verifiable price, other than quoted

C: Unverifiable market price

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

## 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.

Subsidiary Suomen Asuntopankki Oy has granted an absolute guarantee for its parent, The Mortgage Society of Finland. Guarantee of EUR 93 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 2018.

## 8. IFRS 9 expected credit losses by stage

(1000 €)	Net book value 31 Mar 2019	Expected credit loss allowance 31 Mar 2019	Net book value 31 Mar 2018	Expected credit loss allowance 31 Mar 2018	Net book value 31 Dec 2018	Expected credit loss allowance 31 Dec 2018
<b>Receivables from the public and public sector entities</b>						
Level 1, performing loans, no significant increase in credit risk	2 602 523.8	21.7	2 256 651.6	17.9	2 580 027.3	23.9
Level 2, performing loans with a significant increase in credit risk	8 922.4	49.8	6 754.8		7 090.5	41.7
Level 3, non-performing loans	2 307.3	291.8	2 990.7	311.7	1 790.1	299.0
<b>Total</b>	<b>2 613 753.6</b>	<b>363.4</b>	<b>2 266 397.0</b>	<b>329.6</b>	<b>2 588 907.9</b>	<b>364.6</b>
<b>Debt instruments, FVOCI</b>						
Level 1, performing loans, no significant increase in credit risk	117 349.4	16.0	225 958.8	21.8	154 844.7	16.6
<b>Other assets, trade receivables</b>						
Level 1, performing loans, no significant increase in credit risk	60.5	0.0	280.1	0.0	404.5	0.0
<b>Off-balance sheet commitments; granted but undrawn loans</b>						
Level 1, performing loans, no significant increase in credit risk	254 223.9	0.8	371 138.4	0.0	269 244.0	0.4

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

(1000 €)	Net expected credit losses with P&L impact 1-3/2019	Net expected credit losses with P&L impact 1-3/2018	Net expected credit losses with P&L impact 1-12/2018
<b>Receivables from the public and public sector entities</b>			
Level 1, performing loans, no significant increase in credit risk	-2.1	3.2	-2.8
Level 2, performing loans with a significant increase in credit risk	8.1	3.0	-38.7
Level 3, non-performing loans	-7.2	-2.1	10.5
<b>Total</b>	<b>-1.2</b>	<b>4.1</b>	<b>-31.0</b>
<b>Debt instruments, FVOCI</b>			
Level 1, performing loans, no significant increase in credit risk	-0.7	3.5	8.7
<b>Other assets, trade receivables</b>			
Level 1, performing loans, no significant increase in credit risk	0.0	0.0	0.0
<b>Off-balance sheet commitments; granted but undrawn loans</b>			
Level 1, performing loans, no significant increase in credit risk	0.4	0.0	-0.4

## 9. Income distribution

### Group's total income

(1000 €)

	1-3/2019	1-3/2018	2018
Interest income	6 131.1	5 545.2	23 614.8
Interest expense	-2 738.6	-2 840.0	-11 284.1
Net interest income	3 392.5	2 705.2	12 330.8
Net fee income			
from lending operations	376.7	429.0	2 058.2
from land trustee services	357.1	321.2	1 390.3
from other operations	49.8	141.4	346.3
Total net fee income	783.6	891.7	3 794.8
Net income from treasury operations	137.0	437.8	-820.1
Net income from investment properties	676.3	590.4	2 554.5
Capital gains on investment properties	112.5	0.0	376.0
Other income	-9.8	3.1	-12.9
Non-interest income	916.0	1 031.4	2 097.4
Total income	5 092.2	4 628.2	18 223.0



## 10. IFRS 16 Leases

**Hypo Group as lessee** **1–3/2019**  
(1000 €)

### Right-of-use assets

Depreciation - IT	9.0
Depreciation - Apartments	40.2
Carrying amount - IT	62.8
Carrying amount - Apartments	281.3

### Lease liabilities

Interest expense	-2.8
Carrying amounts sorted by remaining maturity	
Non-fixed-term leases	345.4

### Relief options

Expenses from leases of low-value assets	1.3
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Hypo Group leases office premises in Helsinki as well as IT products and service. The lease terms of these contracts are non-fixed.

**Hypo Group as a lessor** **1–3/2019**  
(1000 €)

### Operative leases

Lease income	488.7
Undiscounted lease payments to be received	
1 year	884.6
2 year	584.3
3 year	560.3
4 year	560.3
5 year	291.5
>5 years	21 362.5

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

## 11. Information concerning asset encumbrance

31 March 2019

(1000 €)	Book value of encumbered assets	Fair value of encumbered assets	Book value of unencumbered assets	Fair value of unencumbered assets
<b>A - Assets</b>	1 661 094	1 661 094	1 714 545	1 714 545
Equity instruments			132	132
Debt securities	50 482	50 482	205 234	205 234
Other assets, including lending	1 610 612	1 610 612	1 509 179	1 509 179

### 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
<b>C - Encumbered assets and associated liabilities</b>		
Book value of selected financial liabilities	79 195	94 815
Debt securities issued to the public	1 270 595	1 555 199
Derivative contracts	6 977	11 079
Total	1 356 768	1 661 094

### 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 1,661.1 million, out of which of covered bonds were EUR 1,602.4 million on 31 March 2019. Unencumbered debt securities that are tradable on the secondary market and eligible as ECB collateral and that can be used as collateral in monetary policy operations totaled EUR 185.4 million on 31 March 2019. EUR 740.3 million of unencumbered loans may be used as collateral for covered bonds.

31 December 2018

(1000 €)	Book value of encumbered assets	Fair value of encumbered assets	Book value of unencumbered assets	Fair value of unencumbered assets
<b>A - Assets</b>	1 345 044	1 345 044	1 768 773	1 768 773
Equity instruments			132	132
Debt securities	50 648	50 648	159 514	159 514
Other assets, including lending	1 294 396	1 294 396	1 609 126	1 609 126

### 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
<b>C - Encumbered assets and associated liabilities</b>		
Book value of selected financial liabilities	79 275	97 589
Debt securities issued to the public	962 817	1 239 491
Derivative contracts	3 484	7 964
Total	1 045 575	1 345 044

### 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 1,345.0 million, out of which of covered bonds were EUR 1,290.1 million on 31 December 2018. 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 159,5 million on 31 December 2018. EUR 1,035.1 million of unencumbered loans may be used as collateral for covered bonds.

**Sources:**

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

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

**Definitions of Alternative Performance Measures:****Operating profit/profit before appropriations and taxes, milj. €**

Interest income + income from equity investments + fee income + net income from financial assets at fair value through other comprehensive income + net income from currency operations and securities trading + net income from hedge accounting + income from investment properties + other operating income – (administrative expenses + depreciation and impairment losses on tangible and intangible assets + other operating expenses+ expected credit losses on loans and other commitments)

**Return on equity % (ROE)**

$$\frac{\text{Operating profit - income taxes}}{\text{Equity + accumulated appropriations less deferred tax liabilities (average total at the beginning and end of the year)}} \times 100$$

**Cost-to-income ratio, %**

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

**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.

**Expected credit losses, %**

$$\frac{\text{Expected credit losses from loans to the public in P&L}}{\text{Lending to the public at the end of the period}} \times 100$$

**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 %**

$$\frac{\text{Common Equity Tier 1, CET1}}{\text{Total risk}} \times 100$$

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

#### **Description of Alternative Performance Measures:**

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

**Return on equity % (ROE)** measures profitability of business operations by revealing how much profit is generated in 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.

**Expected credit losses**, % compares expected credit losses in P&L from the loan portfolio to the loan portfolio in total. The smaller the ratio the less credit losses are expected in the future.

*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 – 31 March 2019 Interim Report of the Mortgage Society of Finland (Translation)**

### Introduction

We have performed a review of the Mortgage Society of Finland's balance sheet of 31 March 2019, income statement, statement of changes in equity and the cash flow statement for the three months period ended, as well as the summary of significant accounting policies and other Notes. The Board of Directors and CEO are responsible for preparing the Interim Report and ensuring it provides accurate and sufficient information in accordance with the International Financial Reporting Standards (IFRS) approved in the EU, and other statutes and regulations concerning the preparation of the Interim Report in effect in Finland. Based on the review we have performed, we are issuing an opinion on the Interim Report in accordance with the Securities Act Section 2, Article 5a(7).

### Scope of review

The review was performed in accordance with the International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial information consists of making enquiries, primarily with persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially narrower in scope than an audit conducted in accordance with international standards and recommendations on auditing, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Interim Report is not prepared in accordance with the International Financial Reporting Standards (IFRS) approved in the EU and other statutes and regulations concerning the preparation of the Interim Report in effect in Finland. The Report provides accurate and sufficient information on the financial standing of the entity on 31 March 2019 and the result and cash flows of its operations for the three months period ended.

Helsinki 26 April 2019

PricewaterhouseCoopers Oy  
Authorised Public Accountants

Jukka Paunonen  
Authorised Public Accountant (KHT)