THE MORTGAGE SOCIETY OF FINLAND

Interim Report

1 January–30 September 2019

The Financial Statement Release 2019 will be published on 31 January 2020.

The Audited Financial Statements 2019 will be published on 2 March 2020 and The Annual Report during the week 13.

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, Interim Reports and Stock Exchange Releases published during period 1 January to 30 September 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 31 October 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/

Hypo Group’s January–September 2019

The home finance specialist Hypo Group’s operating profit grew by 7 percent and net interest income by 16 percent.

CEO Ari Pauna:

“Focusing on low risk housing collaterized lending in metropolitizing Finland is yielding profits. Hypo Group’s operating profit grew by 7 percent and net interest income by 16 percent. Common Equity Tier 1 improved and return on equity remained strong. Non-performing loans remained on a very low level and impairment losses were nearly zero.”

- Net interest income increased to EUR 10.4 million (EUR 9.0 million 1–9/2018)
- Non-performing loans remained low at 0.10% of loan book (0.07% 31 December 2018)
- Expected credit losses were 0.0% of the loan book
- Net fee and commission income was EUR 2.7 million (EUR 2.9 million 1–9/2018)
- Other income totaled EUR 2.1 million (EUR 2.4 million 1–9/2018)
- Total costs remained at modest level
- Common Equity Tier 1 (CET1) ratio, as calculated with standard and basic methods, was 12.6% (12.1% on 31 December 2018)

GROUP'S KEY FIGURES

(1000 €)	**1-9/2019**	**1-9/2018**	**7-9/2019**	**7-9/2018**	**2018**
Net interest income	10 433	8 980	3 563	3 205	12 331
Net fee and commission income	2 709	2 909	947	971	3 795
Total other income	2 058	2 376	411	1 063	2 097
Total expenses	-8 813	-8 313	-2 386	-2 297	-11 058
Operating profit	6 386	5 952	2 534	2 942	7 165
Receivables from the public and public sector entities	2 677 043	2 512 308	2 677 043	2 512 308	2 588 908
Deposits	1 598 050	1 658 633	1 598 050	1 658 633	1 718 166
Balance sheet total	3 224 490	2 998 709	3 224 490	2 998 709	3 113 817
Return on equity % (ROE)	5,5	5,5	6,5	5,5	5,0
Common Equity Tier 1 (CET1) ratio	12,6	12,1	12,6	12,1	12,1
Cost-to-income ratio,%	58,2	58,1	48,8	43,9	60,6
Non-performing assets, % of the loan portfolio	0,10	0,08	0,10	0,08	0,07
LTV-ratio, % / Loan to Value, average, %	35,5	36,0	35,5	36,0	35,8
Loans / deposits, %	167,5	151,5	167,5	151,5	150,7

Calculation of key figures and definitions are set out below.

Contact information:
CEO Mr. Ari Pauna, tel. +358 9 228 361, +358 50 353 4690
Chief Risk Officer, deputy to the CEO Mr. Mikko Huopio, tel. +358 9 228 361, +358 50 400 2990

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.

Our customer promise – a *secure way for better living* – guides all of our operations. Nearly 28,000 customers, mainly in growth centers, have already taken us up on our promise.

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. 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’ with stable outlook (S&P Global Ratings).

OPERATING ENVIRONMENT

The global economic growth was weary in the third quarter of 2019 due to the ongoing trade war. Closely watched manufacturing purchase manager index declined in the euro area to the lowest level since 2012. On the other hand, the stock markets were relatively flat despite the turbulence as the European Central Bank (ECB) and the Federal Reserve promised to act as the economic outlook deteriorated. ECB lowered the key deposit rate to -0.50 percent in September and informed of a new asset purchase program. Short-term interest rates that follow the ECB's policy rates decreased to record levels. At the end of September, the 12-month Euribor stood at minus 0.33 percent.

The Finnish economy continued a decent growth in July-September according to preliminary data. Household and business confidence surveys stayed relatively flat despite the weakness in main trading partners. In Sweden unemployment increased and in Germany GDP declined. Finnish economy surprised by holding steady as private consumption and construction in growth centers carried the economy.

Polarization deepened in the housing markets: housing prices rose in growth cities, especially in the Helsinki metropolitan area, but in sparsely populated areas and in areas struggling with population declines prices continued to decrease. Housing loan stock rose by 2 percent year-over-year and the average interest rate on new mortgage loans declined to 0.7 percent. The loan stock of housing companies continued to rise at a faster pace due to the newbuilding activity but the peak is already behind.

Trading volumes of old and new dwellings was strong in the growth centers. Prices, trading volumes and trading times differ significantly around the country. More homes are completed in the major cities than at any time after 1991. Last year, construction starts totaled 44 000 homes, which cools down price and rent growth. New rental apartments in the cities and decreasing demand in the rural areas will smooth the development going forward.

Labor market stayed stable but the improvement is largely over. Employment rate has remained steady at 72.5 percent and the unemployment rate at 6.7 percent. The purchasing power of consumers increases as earnings are increasing by 2.5 percent while inflation remains around 1 percent.

RESULTS AND PROFITABILITY

July-September 2019

Hypo Group's operating profit was EUR 2.5 million (EUR 2.9 million for July-September 2018). Income totaled EUR 4.9 million (EUR 5.2 million) and expenses EUR 2.4 million (EUR 2.3 million).

January-September 2019

Hypo Group's operating profit was EUR 6.4 million (EUR 6.0 million for January–September 2018). Income totaled EUR 15.2 million (EUR 14.3 million) and expenses EUR 8.8 million (EUR 8.3 million). An increasing amount of operating profit originated from core business operations. Net interest income continued to grow to EUR 10.4 million (EUR 9.0 million) due to lower funding costs. Net fee and commission income totaled EUR 2.7 million (EUR 2.9 million).

Net income from investment properties (housing units and residential land) amounted to EUR 2.2 million (EUR 1.9 million).

Group's cost-to-income ratio was 58.2% (58.1%).

Group's other comprehensive income EUR 6.6 million (EUR 4.9 million) includes EUR 5.2 million (EUR 4.9 million) profit for the financial period, as well as the change in the fair value reserve EUR 1.1 million (EUR -0.2 million), the revaluation of defined benefit pension plans EUR 0.3 million (EUR 0.2 million) and adjustments of retained earnings EUR 0.0 million (EUR -0.1 million).

PERSONNEL

On 30 September 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 2,677.0 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 remained strong and was 35.5% (35.8% on 31 December 2018).

Amount of non-performing loans was low at EUR 2.6 million (EUR 1.8 million on 31 December 2018), representing 0.10% 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 426.4 million (EUR 442.4 million on 31 December 2018), which corresponds to 13.2% (14.2%) of the total assets. The cash and cash equivalents which totaled EUR 422.9 million consisted of assets distributed widely across various counterparties, and of debt securities tradable on the secondary market, of which 96.7% (95.4%) had a credit rating of at least 'AA-' or were of equivalent credit quality and 91.6% (95.9%) were ECB repo eligible. Liquidity covers wholesale funding cash flows for the following 38 months. The Liquidity Coverage Ratio was 121.7% (122.6%).

The defined benefit plans surplus of EUR 5.7 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 34.3 million on 30 September 2019 (EUR 4.6 million on 31 December 2018), and the value of liabilities was EUR 10.5 million (EUR 3.2 million).

Deposits and other funding

Deposits decreased to EUR 1,598.1 million (EUR 1,718.2 million on 31 December 2018). The share of deposits accounted for 52.8% (58.2%) of total funding.

The share of long-term funding of total funding was 46.0% on 30 September 2019 (36.2%).

The total funding at the end of the financial period was EUR 3,026.6 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 128.0 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 30 September 2019 was 12.6% (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 adequate level in relation to Group's current and future business. At the end of the financial period, Group's Leverage Ratio was 3.6% (3.5%).

The 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 (CET1). Additional capital requirement entered into force on 1 July 2019.

The Finnish Financial Supervisory Authority has also set a discretionary additional capital requirement of 1.25 percent (Pillar 2 requirement) to the Hypo Group. The requirement is to be met with Common Equity Tier 1 capital (CET 1). The requirement will enter into force on 31 December 2019 and it will remain in force until further notice, however not longer than until 31 December 2022. The decision has been made as a normal part of the Group's continuous supervisory review.

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 – 30 September 2019, no significant changes have occurred in the outlook or financial standing of the Mortgage Society of Finland or its Group.

FUTURE OUTLOOK

Finnish economy grows at a slower pace but wages will grow going forward. Housing loan demand is supported by low and stable 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 will deepen. Newbuilding will increase the importance of the largest cities.

Hypo Group focuses on its core business areas and expects the share of profit made by them to continue to rise following the increase of net interest and net fee income. Capital adequacy continues to strengthen.

The operating profit for 2019 is expected to increase from 2018. The expectation contains uncertainties due to the development in economy and interest rates.

Helsinki, 31 October 2019

The Board

CONSOLIDATED INCOME STATEMENT, IFRS

(1000 €)	1-9/2019	1-9/2018	7-9/2019	7-9/2018	2018
Interest income	19 311,7	17 479,7	6 657,6	6 070,4	23 614,8
Interest expenses	-8 879,0	-8 499,3	-3 094,7	-2 865,2	-11 284,1
NET INTEREST INCOME	10 432,7	8 980,4	3 562,9	3 205,2	12 330,8
Income from equity investments					
Fee and commission income	2 754,1	2 987,6	961,8	997,4	3 887,3
Fee and commission expenses	-45,4	-78,9	-15,0	-26,3	-92,5
Net income from securities and foreign currency transactions					
Net income from securities trading	-230,8	367,3	-303,8	444,3	-1 144,7
Net income from financial assets at fair value through other comprehensive income	194,0	108,4	0,0	20,0	291,4
Net income from hedge accounting	-62,0	-26,1	23,3	-5,3	33,2
Net income from investment properties	2 181,1	1 943,2	696,9	613,7	2 930,5
Other operating income	-24,8	-17,2	-5,7	-9,8	-12,9
Administrative expenses					
Personnel costs					
Wages and salaries	-3 621,6	-3 668,8	-1 043,8	-1 131,7	-4 920,5
Other personnel related costs					
Pension costs	-667,1	-725,6	-215,7	-219,4	-995,8
Other personnel related costs	-79,7	-100,3	-43,8	-55,6	-109,0
Other administrative expenses	-2 213,9	-1 847,1	-692,3	-585,6	-2 663,5
Total administrative expenses	-6 582,3	-6 341,7	-1 995,6	-1 992,3	-8 688,8
Depreciation and impairment losses on tangible and intangible assets	-567,3	-374,0	-189,8	-122,0	-516,1
Other operating expenses	-1 692,2	-1 573,6	-214,3	-183,2	-1 830,3
Net gains/losses on derecognition of financial assets measured at amortised cost	27,3	-32,6	13,7	0,7	-31,3
Net gains/losses on derecognition of other financial assets	1,5	8,7	0,0	0,0	8,7
OPERATING PROFIT	6 385,9	5 951,7	2 534,4	2 942,3	7 165,2
Income taxes	-1 202,9	-1 047,7	-477,4	-544,4	-1 216,8
OPERATING PROFIT AFTER TAX	5 183,0	4 903,9	2 057,0	2 397,8	5 948,5
PROFIT FOR THE PERIOD	5 183,0	4 903,9	2 057,0	2 397,8	5 948,5

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, IFRS

(1000 €)	1-9/2019	1-9/2018	7-9/2019	7-9/2018	2018
Profit for the period	5 183,0	4 903,9	2 057,0	2 397,8	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	65,0	0,0	0,0	65,0
Financial assets at fair value through other comprehensive income	1 055,5	-250,7	819,1	-399,9	-114,2
	1 055,5	-185,7	819,1	-399,9	-49,2
Items that may not be reclassified subsequently to the income statement					
Revaluation of defined benefit pension plans	338,4	203,6	-172,9	197,5	-254,8
Correction for previous year, IFRS 9	0,0	-57,8	0,0	0,0	-57,8
	338,4	145,8	-172,9	197,5	-312,6
Total other comprehensive income items	1 393,9	-39,9	646,2	-202,4	-361,7
COMPREHENSIVE INCOME FOR THE PERIOD	**6 576,9**	**4 864,1**	**2 703,1**	**2 195,5**	**5 586,7**

CONSOLIDATED BALANCE SHEET, IFRS

(1000 €)	30.9.2019	31.12.2018	30.9.2018
ASSETS			
Cash	120 900,0	223 600,0	88 200,0
Debt securities eligible for refinancing with central banks			
Other	270 715,2	201 166,5	210 969,9
Receivables from credit institutions			
Repayable on demand	6 332,1	5 338,7	7 027,6
Other	81,3	60,8	8,9
	6 413,4	5 399,5	7 036,4
Receivables from the public and public sector entities			
Other than those repayable on demand	2 677 043,5	2 588 907,9	2 512 308,4
Debt securities			
From public sector entities	15 010,9	8 506,0	101 365,3
From others	9 847,8	0,0	0,0
	24 858,7	8 506,0	101 365,3
Shares and holdings	132,4	132,4	132,4
Derivative financial instruments	34 341,4	4 562,6	437,8
Intangible assets			
Other long-term expenditure	3 635,0	2 788,0	2 832,6
Tangible assets			
Investment properties and shares and holdings in investment properties	60 344,4	61 420,5	59 163,0
Other properties and shares and holdings in real estate corporations	646,3	844,4	846,9
Other tangible assets	224,1	258,0	264,1
	61 214,8	62 522,9	60 274,0
Other assets	18 243,3	10 626,0	8 601,2
Accrued income and advances paid	6 951,4	5 456,6	6 360,4
Deferred tax receivables	41,1	148,5	190,7
TOTAL ASSETS	**3 224 490,1**	**3 113 816,9**	**2 998 709,2**

CONSOLIDATED BALANCE SHEET, IFRS

(1000 €)	30.9.2019	31.12.2018	30.9.2018
LIABILITIES			
Liabilities to credit institutions			
Central banks	80 000,0	80 000,0	80 000,0
Credit institutions			
Other than those repayable on demand	7 439,1	10 101,5	11 210,9
	87 439,1	90 101,5	91 210,9
Liabilities to the public and public sector entities			
Deposits			
Repayable on demand	791 296,0	806 059,4	827 105,1
Other	806 754,1	912 106,3	831 527,7
	1 598 050,1	1 718 165,6	1 658 632,8
Other liabilities			
Other than those repayable on demand	14 794,1	16 917,6	17 517,6
	1 612 844,2	1 735 083,3	1 676 150,5
Debt securities issued to the public			
Bonds	1 289 837,2	960 976,9	1 002 830,1
Other	36 484,2	168 435,6	78 448,3
	1 326 321,4	1 129 412,5	1 081 278,5
Derivative financial instruments	10 483,2	3 215,5	5 701,6
Other liabilities			
Other liabilities	41 382,7	17 119,0	6 430,7
Deferred income and advances received	7 981,7	7 663,3	6 676,1
Subordinated liabilities			
Other	0,0	0,0	491,6
Deferred tax liabilities	10 051,9	9 812,9	10 082,9
EQUITY			
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 fair value recognition	975,3	-80,2	-216,7
Defined benefit pension plans	2 543,2	2 204,8	2 663,2
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	5 183,0	5 948,5	4 903,9
	127 985,9	121 409,0	120 686,4
TOTAL LIABILITIES	**3 224 490,1**	**3 113 816,9**	**2 998 709,2**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(1000 €)	Basic capital	Reserve fund	Fair value reserve	Other reserves	Retained earnings	Total
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					-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					4 903,9	4 903,9
Profit use of funds		10,7			-10,7	0,0
Cash flow hedges						
Amount recognised in equity			-66,6			-66,6
Amount transferred to the income statement			147,9			147,9
Change in deferred taxes			-16,3			-16,3
Financial assets at fair value through other comprehensive income						
Change in fair value			-209,2			-209,2
Amount transferred to the income statement			-108,4			-108,4
Change in deferred taxes			66,8			66,8
Revaluation of defined benefit plans						
Actuarial gains / losses			254,5			254,5
Change in deferred taxes			-50,9			-50,9
Total other comprehensive income	0,0	10,7	17,9	0,0	-10,7	17,9
Equity 30 September 2018	**5 000,0**	**22 810,7**	**2 446,5**	**22 923,5**	**67 505,7**	**120 686,4**
Equity 1 January 2019	5 000,0	22 810,7	2 124,6	22 923,5	68 550,2	121 409,0
Profit for the period					5 183,0	5 183,0
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			1 513,8			1 513,8
Amount transferred to the income statement			-194,0			-194,0
Change in deferred taxes			-264,3			-264,3
Revaluation of defined benefit plans						
Actuarial gains / losses			423,0			423,0
Change in deferred taxes			-84,6			-84,6
Total other comprehensive income	0,0	2 679,9	1 393,9	0,0	-2 679,9	1 393,9
Equity 30 September 2019	**5 000,0**	**25 490,5**	**3 518,6**	**22 923,5**	**71 053,4**	**127 985,9**

CONSOLIDATED CASH FLOW STATEMENT

(1000 €)	1–9/2019	1–9/2018
Cash flow from operating activities		
Interest received	17 759,1	16 345,5
Interest paid	-7 886,1	-7 476,3
Fee income	2 562,0	2 832,5
Fee expenses	-45,4	-78,9
Net income from securities and foreign currency transactions	-230,8	367,3
Net income from available-for-sale financial assets		
Net income from financial assets at fair value through other comprehensive income	194,0	108,4
Net income from hedge accounting	-62,0	-26,1
Net income from investment properties	2 418,5	1 904,3
Other operating income	-24,8	-17,2
Administrative expenses	-5 602,7	-6 320,1
Other operating expenses	-1 720,0	-1 590,2
Credit and guarantee losses		
Expected credit losses	28,6	-23,7
Income taxes	-2 086,3	-110,5
Total net cash flow from operating activities	**5 304,3**	**5 915,0**
Operating assets increase (-) / decrease (+)		
Receivables from customers (lending)	-90 783,1	-300 104,8
Collateral, derivatives	20 536,0	26,8
Investment properties	810,8	-2 649,1
Operating assets increase (-) / decrease (+) total	**-69 436,3**	**-302 727,1**
Operating liabilities increase (+) / decrease (-)		
Liabilities to the public and public sector organisations (deposits)	-120 115,5	118 231,4
Operating liabilities increase (+) / decrease (-) total	-120 115,5	118 231,4
NET CASH FLOWS ACCRUED FROM OPERATING ACTIVITIES	**-184 247,5**	**-178 580,6**
Cash flows from investments		
Change in fixed assets	-1 182,4	-350,5
Equity investments increase (-) / decrease (+)	0,0	0,0
NET CASH FLOWS ACCRUED FROM INVESTMENTS	**-1 182,4**	**-350,5**
Cash flows from financing		
Bank loans, new withdrawals	75,2	120,3
Bank loans, repayments	-2 737,6	-2 783,3
Other liabilities, increase (+) / decrease (-)	-2 090,1	-2 050,1
Bonds, new issues *	336 128,8	251 447,4
Bonds, repayments *	-29 779,8	-102 070,4
Certificates on deposit, new issues	115 316,0	99 433,6
Certificates on deposit, repayments	-247 267,3	-155 914,3
Subordinated liabilities, new withdrawals	0,0	11,0
Subordinated liabilities, repayments	0,0	-4 009,5
NET CASH FLOWS ACCRUED FROM FINANCING	**169 645,2**	**84 184,7**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**-15 784,8**	**-94 746,4**
Cash and cash equivalents at the beginning of the period	**438 672,0**	**502 318,1**
Cash and cash equivalents at the end of the period	**422 887,3**	**407 571,7**
CHANGE IN CASH AND CASH EQUIVALENTS	**-15 784,8**	**-94 746,4**

** The cash flow statement from the reference period has been revised by removing the deferred non-cash flow items from the cash flows regarding hedge accounting. The revision had no effect on the income, balance sheet or comprehensive income of the Group.*

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 Interim Report 1 January – 31 March 2019. 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.

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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 31 October 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 30 September 2019. Equity instruments have not been issued nor repaid during the period from 1 January to 30 September 2019.

3. Capital Adequacy Information

Hypo Group own funds and capital ratios

(1000 €)	30.9.2019	31.12.2018
Common Equity Tier 1 (CET1) capital: Instruments and reserves		
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	51 932,6	47 858,8
Independently reviewed interim profits net of any foreseeable charge or dividend	5 183,0	5 948,5
Common Equity Tier 1 (CET1) capital before regulatory adjustments	127 985,9	121 409,0
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets	-2 908,0	-2 230,4
Deferred tax assets that rely on future profitability	-41,1	-148,5
Value adjustments due to the requirements for prudent valuation	-338,7	-219,9
Fair value reserves related to gains or losses on cash flow hedges	0,0	0,0
Defined-benefit pension fund assets	-7 134,6	-6 467,9
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-10 422,4	-9 066,7
Common Equity Tier 1 (CET1) capital	117 563,5	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)	117 563,5	112 342,3
Total risk weighted assets	929 971,8	925 239,5
Capital ratios and buffers		
Common Equity Tier 1 (CET1) as a percentage of total risk exposure amount	12,6	12,1
Tier 1 (T1) as a percentage of total risk exposure amount	12,6	12,1
Total capital as a percentage of total risk exposure amount	12,6	12,1
Institution specific buffer requirement, %	8,0	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, %	1,0	0,0
of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer, %	0,0	0,0
Commom Equity Tier 1 available to meet buffers, %	9,1	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 €)

30.9.2019

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	244 262,2	302 606,7	0,0	0,0
Exposures to regional governments or local authorities	139 268,8	148 404,8	0,0	0,0
Exposures to credit institutions	75 057,6	83 837,0	26 032,5	2 082,6
Exposures to corporates	56 083,6	24 723,7	17 805,9	1 424,5
Retail exposures	62 789,6	15 823,1	10 563,3	845,1
Exposures secured by mortgages on immovable property	2 718 126,5	2 623 400,6	767 717,0	61 417,4
Exposures in default	2 256,0	2 048,4	2 101,6	168,1
Exposures in the form of covered bonds	23 692,2	23 692,2	2 369,2	189,5
Other items	62 518,0	62 518,0	62 518,0	5 001,4
	3 384 054,6	3 287 054,4	889 107,5	71 128,6
Operational risk			32 506,8	2 600,5
Other risks			8 357,5	668,6
All items in total	**3 384 054,6**	**3 287 054,4**	**929 971,8**	**74 397,7**

31.12.2018

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	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
	3 381 934,8	3 223 522,8	885 172,0	70 813,8
Operational risk			32 506,8	2 600,5
Other risks			7 560,7	604,9
All items in total	**3 381 934,8**	**3 223 522,8**	**925 239,5**	**74 019,2**

Risk-weighting of the following exposures: sovereigns, regional governments, local authorieties, 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).

4. Contingent liabilities and other off-balance sheet commitments

(1000 €)	**30.9.2019**	**31.12.2018**	**30.9.2018**
Commitments given on behalf of a customer for the benefit of a third party			
Guarantees and other liabilities	2 181,9	2 181,9	2 181,9
Irrevocable commitments given on behalf of a customer			
Granted but unclaimed loans	154 389,4	269 244,0	396 048,5
Purchase commitments of housing units	1 625,4	2 262,6	2 165,6
Total	158 196,7	273 688,5	400 396,0

5. Fair values of financial instruments

(1000 €)		**30.9.2019**	**31.12.2018**	**30.9.2018**
Financial assets	Fair value determination principle		Fair value	Fair value
Debt securities eligible for refinancing with central banks	A	270 715,2	201 166,5	210 969,9
Debt securities	A	24 858,7	8 506,0	101 365,3
Derivative contracts	B	34 341,4	4 562,6	437,8
Total		329 915,2	214 235,1	312 773,1
Financial liabilities				
Derivative contracts	B	10 483,2	3 215,5	5 701,6

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.

6. Related party information

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

Subsidiary Suomen Asuntohypopankki Oy has granted an absolute guarantee for its´ parent, The Mortgage Society of Finland. Guarantee of EUR 89 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.

7. IFRS 9 expected credit losses by stage

(1000 €)	Net book value	Expected credit loss allowance	Net book value	Expected credit loss allowance	Net book value	Expected credit loss allowance
	30 Sep 2019	**30 Sep 2019**	**30 Sep 2018**	**30 Sep 2018**	**31 Dec 2018**	**31 Dec 2018**
Receivables from the public and public sector entities						
Level 1, performing loans, no significant increase in credit risk	2 668 384,9	20,6	2 504 820,4	25,3	2 580 027,3	23,9
Level 2, performing loans with a significant icrease in credit risk	6 110,6	35,1	5 365,4	44,2	7 090,5	41,7
Level 3, non-performing loans	2 547,9	281,8	2 122,5	296,6	1 790,1	299,0
Total	**2 677 043,5**	**337,5**	**2 512 308,4**	**366,0**	**2 588 907,9**	**364,6**
Debt instruments, FVOCI						
Level 1, performing loans, no significant increase in credit risk	124 220,9	15,1	272 945,5	16,6	154 844,7	16,6
Other assets, trade receivables						
Level 1, performing loans, no significant increase in credit risk	619,2	0,0	677,9	0,0	404,5	0,0
Off-balance sheet commitments; granted but undrawn loans						
Level 1, performing loans, no significant increase in credit risk	154 389,4	0,2	396 048,5	0,2	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	Net expected credit losses with P&L impact	Net expected credit losses with P&L impact	Net expected credit losses with P&L impact	Net expected credit losses with P&L impact
	1–9/2019	1–9/2018	**7-9/2019**	**7-9/2018**	1-12/2018
Receivables from the public and public sector entities					
Level 1, performing loans, no significant increase in credit risk	3,3	-4,3	1,6	-4,6	-2,8
Level 2, performing loans with a significant icrease in credit risk	6,6	-41,1	10,4	-0,9	-38,7
Level 3, non-performing loans	17,3	13,0	1,7	6,3	10,5
Total	**27,1**	**-32,4**	**13,6**	**0,8**	**-31,0**
Debt instruments, FVOCI					
Level 1, performing loans, no significant increase in credit risk	1,5	8,7	0,0	0,0	8,7
Other assets, trade receivables					
Level 1, performing loans, no significant increase in credit risk	0,0	0,0	0,0	0,0	0,0
Off-balance sheet commitments; granted but undrawn loans					
Level 1, performing loans, no significant increase in credit risk	0,2	-0,2	0,1	-0,1	-0,4

8. IFRS 15 Income distribution

Group's total income
(1000 €)

	1–9/2019	**1–9/2018**	**7-9/2019**	**7-9/2018**	**2018**
Interest income	19 311,7	17 479,7	6 657,6	6 070,4	23 614,8
Interest expense	-8 879,0	-8 499,3	-3 094,7	-2 865,2	-11 284,1
Net interest income	10 432,7	8 980,4	3 562,9	3 205,2	12 330,8
Net fee income					
from lending operations	1 312,1	1 665,7	423,9	529,1	2 058,2
from land trustee services	1 175,3	990,2	441,2	357,3	1 390,3
from other operations	221,3	252,8	81,8	84,7	346,3
Total net fee income	2 708,7	2 908,7	946,8	971,1	3 794,8
Net income from treasury operations	-98,7	449,6	-280,5	459,0	-820,1
Net income from investment properties	2 034,3	1 777,0	662,7	599,5	2 554,5
Capital gains on investment properties	146,7	166,2	34,3	14,2	376,0
Other income	-24,8	-17,2	-5,7	-9,8	-12,9
Non-interest income	2 057,6	2 375,7	410,7	1 062,8	2 097,4
Total income	15 199,0	14 264,8	4 920,4	5 239,1	18 223,0

9. IFRS 16 Leases

Hypo Group as lessee (1000 €)	**1–9/2019**	**7-9/2019**
Right-of-use assets		
Depreciation - IT	26,9	9,0
Depreciation - Apartments	113,3	32,9
Carrying amount - IT	44,9	
Carrying amount - Apartments	91,3	
Lease liabilities		
Interest expense	-7,1	-1,8
Carrying amounts sorted by remaining maturity		
Non-fixed-term leases	137,9	
Relief options		
Expenses from leases of low-value assets	4,0	1,3

Hypo Group leases office premesis in Helsinki as well as IT products and services. The lease terms of these contracts are non-fixed.

Hypo Group as a lessor (1000 €)	**1–9/2019**	**7-9/2019**
Operative leases		
Lease income	1 460,4	488,7
Undiscounted lease payments to be received		
1 year	1 023,5	
2 year	678,3	
3 year	590,8	
4 year	439,8	
5 year	268,7	
>5 years	8 322,4	

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

10. Information concerning asset encumbrance

30 September 2019

(1000 €)	Book value of encumbered assets	Fair value of encumbered assets	Book value of unencumbered assets	Fair value of unencumbered assets
A - Assets	1 662 590	1 662 590	1 561 900	1 561 900
Equity instruments			132	132
Debt securities	49 102	49 102	246 948	246 948
Other assets, including lending	1 613 488	1 613 488	1 314 820	1 314 820

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	79 033	92 854
Debt securities issued to the public	1 291 854	1 552 858
Derivative contracts	10 327	16 878
Total	1 381 213	1 662 590

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 1,662.6 million, out of which of covered bonds were EUR 1,602.2 million on 30 September 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 222.1 million on 30 September 2019. EUR 805.8 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
A - Assets	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
C - Encumbered assets and associated liabilities		
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)
Operating profit - income taxes
/ Equity + accumulated appropriations less deferred tax liabilities (average total at the beginning and end of the year) x 100

Cost-to-income ratio, %
Administrative expenses + depreciation and impairment losses on tangible and intangible assets + other operating expenses
/ Net interest income + income from equity investments + net fee and commission income + net income from currency operations and securities trading + net income from financial assets at fair value through other comprehensive income + net income from hedge accounting + net income from investment properties + other operating income x 100

LTV-ratio (Loan to Value, average), %
Receivables from the public and public sector entities
/ Fair value of collateral received against the receivables from the public and public sector entities x 100

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

Expected credit losses, %
Expected credit losses from loans to the public in P&L
/ Lending to the public at the end of the period x 100

Loans/deposits %
Receivables from the public and public sector entities
/ Deposits x 100

Deposits out of total funding, %
Deposits
/ Total funding x 100

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

Long-term funding out of total funding, %
Total funding with a remaining maturity of 12 months
/ Total funding x 100

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

Short-term liquidity, months
Coverage of short-term liquidity to wholesale funding cash flows (difference of days multiplied with 365 (days in a year)multiplied with 12 (months in a year))

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

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

Non-performing assets, % of the loan portfolio
Receivables from the public and public sector entities deemed unlikely to be paid + receivables past due and unpaid over 90 days
/ Receivables from the public and public sector entities x 100

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

LCR-ratio, %
Liquid assets
/ Outflow of liquidity – Inflow of liquidity (within 30 days) x 100

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

Leverage Ratio, %
Tier 1 Capital
/ Total exposure x 100

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

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

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 relaton 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 – 30 September 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 30 September 2019, income statement, statement of changes in equity and the cash flow statement for the nine-month 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 September 2019 and the result and cash flows of its operations for the nine-month period ended.

Helsinki 31 October 2019

PricewaterhouseCoopers Oy
Authorised Public Accountants

Jukka Paunonen
Authorised Public Accountant (KHT)