THE MORTGAGE SOCIETY OF FINLAND

Interim Report

1 January–30 September 2023

The Interim Report for the period of 1 January 2023 to 30 September 2023 will be published on 2.2.2024.

The Audited Financial Statements in ESEF-format will be published on 1.3.2024.

The Interim Report does not contain all information or notes that are required in the Annual Financial Statements. The Interim Report should be read in conjunction with the Group's Financial Statements 2022 and Stock Exchange Releases published during the period of 1 January to 30 September 2023.

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

The Interim Report is unaudited.

Hypo Group's Interim Report can be accessed at https://www.hypo.fi/en/hypo-financial-information/

Hypo Group’s January–September 2023

The home finance specialist Hypo Group’s net operating profit grew and capital adequacy remained strong

CEO Ari Pauna:

“Focusing on low-risk housing collateralized lending in urbanising Finland still provides stability despite the continuous uncertainty in operating environment. Despite the slowing market growth, the deposits and loan portfolio continued to grow. Net interest income, capital adequacy and liquidity remained strong. Non-performing loans and impairment losses remained at low level. The year 2023 has continued more strongly than expected. During uncertain times, the services of a specialist organization are in demand. There is a strong demand for home financing from us and we respond to the demand comprehensively supported by completely renewed banking technology.”

- Operating profit was EUR 7.3 million (EUR 6.7 million 1–9/2022)
- Net interest income was EUR 13.2 million (EUR 13.7 million 1–9/2022)
- Non-performing loans remained low at 0.15% of loan book (0.14% 31 December 2022)
- Expected credit losses were 0.01% of the loan book (0.01 % 31 December 2022)
- Net fee and commission income grew to EUR 3.5 million (EUR 2.7 million 1–9/2022)
- Other income was EUR 2.7 million (EUR 4.7 million 1–9/2022)
- Total costs decreased to EUR 12.0 million (EUR 14.4 million 1–9/2022)
- Common Equity Tier 1 (CET1) ratio, calculated with standard and basic methods, was 14.0% (13.8% on 31 December 2022)
- Liquidity Coverage Ratio (LCR) was 209.2% (201.6 % on 31 December 2022)

GROUP'S KEY FIGURES

(1,000 €)	1-9/2023	1-9/2022	7-9/2023	7-9/2022	1-12/2022
Net interest income	13,197	13,712	5,235	4,957	15,264
Net fee and commission income	3,525	2,712	1,015	846	3,592
Total other income	2,665	4,699	-516	887	5,766
Total expenses	-12,039	-14,445	-3,836	-4,059	-17,543
Operating profit	7,347	6,677	1,899	2,631	7,079
Receivables from the public and public sector entities	2,832,974	2,721,402	2,832,974	2,721,402	2,749,916
Deposits	1,514,540	1,447,077	1,514,540	1,447,077	1,463,261
Balance sheet total	3,534,171	3,319,607	3,534,171	3,319,607	3,461,004
Return on equity (ROE) %	5.2	5.0	4.0	5.8	4.0
Common Equity Tier 1 (CET1) ratio %	14.0	14.0	14.0	14.0	13.8
Cost-to-income ratio %	61.4	68.3	66.1	59.8	71.2
Non-performing assets % of the loan portfolio	0.15	0.18	0.15	0.18	0.14
LTV-ratio (Loan to Value, average) %	30.2	31.1	30.2	31.1	30.8
Loans / deposits %	187.1	188.1	187.1	188.1	187.0
Liquidity Coverage Ratio (LCR) %	209.2	150.4	209.2	150.4	201.6
Net Stable Funding Ratio (NSFR) %	113.3	105.5	113.3	105.5	106.5
Leverage Ratio (LR), %	3.9	4.0	3.9	4.0	3.9

Calculation of key figures and definitions are set out below.

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HYPO GROUP

The Mortgage Society of Finland Group (hereafter “Hypo Group” or “Group”) is the only expert organization specialized in home financing 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. The Group continuously develops new ways and models for housing and home financing.

Our customer promise – a *secure way for better living* – guides all our operations. Over 23 thousand customers 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 offers its customers deposit products and residential land trustee services. Suomen Asuntohypopankki Oy is a member of the Deposit Guarantee Fund and a deposit bank wholly owned by 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 world economy grew moderately in the third quarter, as higher inflation than the target level and tighter monetary policy weakened world trade. The development of the economy is accompanied by exceptional uncertainty due to Russia's prolonged war of aggression in Ukraine. The global composite output Purchasing Managers’ index declined significantly in the third quarter, which also indicates a weakening in global economic growth.

Broad stock market indices in the euro area declined by 2.9% over the review period as the bank equity prices of euro area gained 3.9% from 15 June to 13 September 2023. The Governing Council of the ECB raised its key interest rates by 0.25 percentage points in both its July and September meetings, but at the same time announced that it considers the current interest rate sufficient to reduce inflation to the target. The asset purchase programme portfolio is declining at a measured and predictable pace. The Governing Council intends to reinvest the principal payments from maturing securities purchased under the pandemic emergency purchase programme until at least the end of 2024. The long-term risk-free interest rates rose during September. The short-term Euribor rates rose slightly and the 12 months Euribor settled at 4.228 percent at the end of the third quarter.

The Finnish working day adjusted change of total output grew only slightly in August from a year ago. The employment situation improved and there were 45 000 more people employed in August than a year ago. The number of unemployed was higher by 5000 people in August than one year ago. Consumer confidence weakened again in September but was still higher than a year earlier.

According to preliminary data, prices of old dwellings fell by more than 6% in the third quarter from the previous year in the whole country. The corresponding price decline was more than 8% in the metropolitan area while in the whole country excluding greater Helsinki the fall was around 5%. Home sales volumes fell by about 30%, but the number of apartments available for sale remained high in the whole country. The housing loan stock year-on-year growth rate was -1.6% at the end of August, when the average interest rate on mortgage loans had risen to 3.73% and the average interest rate on new housing loans was 4.55%.

The number of housing starts of residential buildings decreased by about 20% between June and August from one year ago. The year-on-year change in consumer prices was 5.5% in September.

KEY EVENTS

During the year 2023, Hypo Group focuses on strengthening its core business and profitability.

The effect of increasing interest rates, especially short-term interest rates, on the Group's net interest income evened out during the financial period.

The amount of non-performing loans remained on a low level. The Forward-Looking Factor (FLF) affecting the amount of Expected Credit Losses (ECL) remained on highest level reflecting the uncertainties of the operating environment.

RESULTS AND PROFITABILITY

July–September 2023

Hypo Group's operating profit was EUR 1.9 million (EUR 2.6 million for July–September 2022). Income totaled EUR 5.7 million (EUR 6.7 million) and expenses EUR 3.8 million (EUR 4.1 million).

January–September 2023

Hypo Group's operating profit was EUR 7.3 million (EUR 6.7 million for January–September 2022).

Income decreased by 8.2% from the previous year and totaled EUR 19.4 million (EUR 21.1 million). Net interest income decreased by 3.8% to EUR 13.2 million (EUR 13.7 million) due to increased interest rates. Net fee and commission income totaled EUR 3.5 million (EUR 2.7 million). Net income from investment properties (housing units and residential land) amounted to EUR 1.5 million (EUR 1.8 million), of which EUR 0.03 million (EUR 0.1 million) were capital gains upon sale. Other operating income totaled EUR 2.2 million (EUR 0.0 million), including EUR -2.2 million contribution to the Resolution Fund for the year 2023.

Expenses decreased by 16.7% from the previous year and totaled EUR 12.0 million (EUR 14.4 million). The decrease was mainly due to precisions made to calculation principles of regulatory contributions.

Group's other comprehensive income EUR 6.2 million (EUR 6.0 million) includes EUR 6.0 million (EUR 5.4 million) profit for the financial period as well as the change in the fair value reserve EUR -0.1 million (EUR -0.2 million) and the revaluation of defined benefit pension plans EUR 0.4 million (EUR 0.7 million).

PERSONNEL

On 30 September 2023, the number of permanent personnel was 68 (63 on 31 December 2022). These figures do not include the CEO and the vice CEO.

ASSETS AND LIABILITIES

Lending

During the financial period, the loan portfolio grew by 3.0% to EUR 2,833.0 million 30 September 2023 (EUR 2,749.9 million on 31 December 2022).

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

The weighted average Loan-to-Value ratio of the loan portfolio remained on a strong level and was 30.2% (30.8%) at the end of the financial period.

The amount of non-performing loans remained low at EUR 4.3 million (EUR 3.9 million), representing 0.15% (0.14%) of the loan portfolio. The expected credit losses in balance sheet remained at EUR 0.2 million (EUR 0.2 million).

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 552.1 million (EUR 560.8 million on 31 December 2022), which corresponds to 15.6% (16.2%) of the total assets. The cash and cash equivalents which totaled EUR 549.1 million consisted of assets distributed widely across various counterparties, and of debt securities tradable on the secondary market, of which 100.0% (100.0%) had a credit rating of at least 'AA-' or were of equivalent credit quality and 100.0% (100.0%) were ECB repo eligible. Liquidity covers wholesale funding cash flows for the following 18 months. The Liquidity Coverage Ratio remained on a strong level and was 209.2% (201.6%).

The defined benefit plans surplus of EUR 7.0 million (EUR 6.4 million) 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 in selected growth centers, mainly in the Helsinki Metropolitan Area. The difference between the fair value and the book value of the properties totaled EUR 5.0 million (EUR 4.8 million).

Derivative contracts

The balance sheet values of derivative assets and margin call receivables were EUR 70.9 million on 30 September 2023 (EUR 69.2 million on 31 December 2022), and the value of derivative liabilities was EUR 104.1 million (EUR 113.0 million). The amount of derivative liabilities is explained with the values of hedging derivatives for covered bonds.

Deposits and other funding

The total amount of deposits increased by 3.5% and was EUR 1,514.5 million at end of the financial period (EUR 1,463.3 million on 31 December 2022). The share of deposits accounted for 46.8% (46.3%) of total funding.

The total nominal amount of covered bonds was EUR 1,770.0 million (EUR 1,770.0 million) at end of the financial period. The total nominal amount of certificates of deposit was EUR 52.0 million (EUR 61.0 million).

The share of long-term funding of total funding was 41.8% on 30 September 2023 (42.3%). The Group's NSFR-ratio at the end of the financial period was 113.3% (106.5%).

The total funding grew and was EUR 3,233.3 million at the end of the financial period (EUR 3,163.0 million).

CAPITAL ADEQUACY AND RISK MANAGEMENT

At the end of the financial period, Hypo Group's equity amounted to EUR 156.7 million (EUR 150.5 million on 31 December 2022). The changes in equity during the financial period are presented in Group's statement of changes in equity attached to this Report.

Group's CET1 capital in relation to risk-weighted assets on 30 September 2023 was 14.0% (13.8% on 31 December 2022). Profit for the financial period is included in the Common Equity Tier 1 capital, based on the statement by the auditors. In measuring credit 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 end of the Interim period, Group's Leverage Ratio was 3.9% (3.9%).

The Group's total capital requirement at the end of the financial period was 11.25%, consisting of minimum capital requirement 8%, capital conservation buffer requirement 2.5%, discretionary capital add-on 0.75% and countercyclical buffer requirements of foreign exposures.

The Finnish Financial Supervisory Authority (The Finnish FSA) has on 24 August 2022 set a discretionary additional capital requirement of 0.75% (Pillar 2 requirement) for The Mortgage Society of Finland group. The requirement took effect on 31 December 2022 and remains in force until further notice, however not longer than 31 December 2025 (previous requirement 1,25 % 31.12.2019-31.12.2022). The requirement is to be met, so that at least three quarters must be Tier 1 capital (T1), of which at least three quarters must be Common Equity Tier 1 capital (CET1).

The decision has been made as part of the group's normal supervisory review and evaluation process.

The Finnish Financial Supervision Authority has on 29 March 2023 decided to set a systematic risk buffer amounting to 1.0% for The Mortgage Society of Finland group. The decision will enter into force after the transitional period on 1 April 2024.

The Finnish Financial Stability Authority has on 25 April 2023 set a minimum requirement of own funds and eligible liabilities (MREL) as stated in the act on the Resolution of Credit Institutions and Investment Firms (1194/2014) chapter 8, section 7 for the Mortgage Society of Finland, applying from 25 April 2023. The requirement will consist solely of the loss absorption amount (LAA) according to the act 1194/2014 chapter 8, section 7, subsection 2, paragraph 1. It can be covered with the same own funds as the capital adequacy requirement. This decision overrules the previous decision from the Finnish Financial Stability Authority dated 28 April 2021.

There have been no significant 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.

The information required by EU's Capital Requirements Regulation (EU) 575/2013 Part eight (i.e. Pillar 3) is published yearly for the most part. The key metrics are published semi-annually. The amending regulation (EU) 2019/876 (i.e. CRR II) entered into force on 28 June 2021, connecting the disclosure requirements to the size and complexity of the institution. The Finnish FSA has classified the Mortgage Society of Finland as a small and non-complex institution, for whom the disclosure requirements were simplified in the amendment.

SUMMARY OF CAPITAL ADEQUACY

(1000 €)	**30.9.2023**	**31.12.2022**
Common Equity Tier 1 capital before deductions	156,671	150,483
Deductions from Common Equity Tier 1 capital	-15,416	-13,537
Total Common Equity Tier 1 capital (CET1)	141,255	136,947
Additional Tier 1 capital before deductions	-	-
Deductions from Additional Tier 1 capital	-	-
Total Additional Tier 1 capital (AT1)	-	-
Tier 1 capital (T1 = CET1 + AT1)	141,255	136,947
Tier 2 capital before deductions	-	-
Deductions from Tier 2 capital	-	-
Total Tier 2 capital (T2)	-	-
Total capital (TC = T1 + T2)	141,255	136,947
Total risk weighted assets	1,009,533	991,991
of which credit risk	945,982	925,679
of which market risk (foreign exchange risk)	-	-
of which operational risk	43,863	43,863
of which other risks	19,688	22,450
CET1 Capital ratio (CET1-%)	14.0	13.8
T1 Capital ratio (T1-%)	14.0	13.8
Total capital ratio (TC-%)	14.0	13.8
Minimum capital	5,000	5,000

KEY EVENTS SINCE THE END OF THE FINANCIAL PERIOD

Since the end of the financial period of 1 January – 30 September 2023, no significant changes have occurred in the outlook or financial standing of the Mortgage Society of Finland or its Group.

Hypo issued a positive profit warning on 19 October 2023. The operating profit for year 2023 is expected to be clearly higher than operating profit for 2022.

In accordance with the Credit Institution Act 610/2014 chapter 11, section 6d, the Finnish Financial Supervisory Authority (The Finnish FSA) has on 23 October 2023 set an indicative additional capital recommendation of 0.75% of total risk. The indicative additional capital recommendation should be covered with CET1 capital as stated in the Credit Institution Act section 6c, 1 subsection. The recommendation will enter into force on 31 March 2024 and is in force until further notice.

FUTURE OUTLOOK

Finland’s economic development will weaken towards the end of the year, as the rise in interest rates is transmitted to private consumption and investments. Employment remains relatively strong, but unemployment will turn to growth in the construction industry next year at the latest. The construction industry's economic situation is weakening, and construction investments are falling. The Finnish government has on 12 October 2023 published a plan on reductions in the transfer tax to help the housing market, which will only recover properly when inflation and interest rates calm down. New housing starts are decreasing, but abundant supply still restrains the development of housing prices. Differences between housing market areas and units become more important and urbanization continues supported by the strong supply of housing. There is a risk of conflict escalation in the Middle East, which increases uncertainty for the future development of the global economy.

Hypo Group focuses on strengthening its core business and profitability. The Group expects net interest income, net fee and commission income, capital adequacy and liquidity to remain on a strong level.

The Mortgage Society of Finland group expects its operating profit for year 2023 to be clearly higher than operating profit for 2022. The expectation has been updated due to interest rate stabilization. The expectation contains uncertainties due to development in economy and interest rates as well as uncertainties related to the wars in Ukraine and Gaza and the unstable global situation.

Helsinki, 31 October 2023

The Board

CONSOLIDATED INCOME STATEMENT, IFRS

(1000 €)	1-9/2023	1-9/2022	7-9/2023	7-9/2022	2022
Interest income	90,179	22,580	34,812	8,422	35,145
Interest expenses	-76,983	-8,868	-29,577	-3,465	-19,882
NET INTEREST INCOME	13,197	13,712	5,235	4,957	15,264
Fee and commission income	3,566	2,773	1,028	866	3,673
Fee and commission expenses	-41	-61	-12	-20	-81
Net income from financial instruments at FVPL	-311	3,048	-266	1,274	2,432
Net income from financial instruments through FVOCI	0	-1,248	0	-1,248	-1,248
Net income from hedge accounting	-727	1,131	-675	-25	1,613
Net income from investment properties	1,504	1,796	436	895	2,762
Other operating income	2,198	-28	-11	-10	209
Personnel expenses	-6,029	-6,245	-2,091	-1,957	-7,574
Administrative expenses	-3,079	-3,954	-899	-1,316	-5,029
Total personnel and administrative expenses	-9,108	-10,199	-2,989	-3,273	-12,603
Depreciation and impairment losses on tangible and intangible assets	-1,169	-1,054	-413	-431	-1,489
Other operating expenses	-1,622	-3,166	-389	-298	-3,436
Final and expected credit losses	-139	-26	-44	-58	-15
OPERATING PROFIT	7,347	6,677	1,899	2,631	7,079
Income taxes	-1,380	-1,233	-333	-486	-1,274
OPERATING PROFIT AFTER TAX	5,966	5,444	1,566	2,144	5,805
PROFIT FOR THE PERIOD	**5,966**	**5,444**	**1,566**	**2,144**	**5,805**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, IFRS

(1000 €)	1-9/2023	1-9/2022	7-9/2023	7-9/2022	2022
Profit for the period	5,966	5,444	1,566	2,144	5,805
Other comprehensive income, after tax					
Items that may be reclassified subsequently to income statement					
Change in fair value reserve					
Financial assets at FVOCI	-132	-177	-38	609	-242
	-132	-177	-38	609	-242
Items that may not be reclassified subsequently to the income statement					
Revaluation of defined benefit pension plans	397	684	74	218	1,216
Adjustment to previous years retained earnings	-44	0	0	0	0
	353	684	74	218	1,216
Total other comprehensive income, after tax	222	507	36	827	974
COMPREHENSIVE INCOME FOR THE PERIOD	**6,188**	**5,951**	**1,602**	**2,971**	**6,778**

CONSOLIDATED BALANCE SHEET, IFRS

(1000 €)	30.9.2023	31.12.2022	30.9.2022
ASSETS			
Cash	419,533	393,179	277,780
Debt securities eligible for refinancing with central banks	122,909	140,315	156,346
Receivables from credit institutions	7,436	24,286	9,771
Receivables from the public and public sector entities	2,832,974	2,749,916	2,721,402
Shares and holdings	24	24	24
Derivative contracts	2,716	2,827	2,477
Intangible assets	10,042	10,230	10,009
Tangible assets			
Investment properties	52,655	50,726	53,948
Other tangible assets	4,834	4,995	580
	57,489	55,720	54,528
Other assets	79,449	78,366	81,605
Accrued income and advances paid	1,595	6,133	5,656
Deferred tax receivables	4	8	9
TOTAL ASSETS	**3,534,171**	**3,461,004**	**3,319,607**

CONSOLIDATED BALANCE SHEET, IFRS

(1000 €)	30.9.2023	31.12.2022	30.9.2022
LIABILITIES			
Liabilities to credit institutions			
Central banks	50,838	50,000	150,000
Credit institutions	20,262	0	0
	71,100	50,000	150,000
Liabilities to the public and public sector entities			
Deposits	1,514,540	1,463,261	1,447,077
Other liabilities	6,417	7,474	7,974
	1,520,957	1,470,735	1,455,050
Debt securities issued to the public	1,647,670	1,642,313	1,432,887
Derivative contracts	104,087	112,984	103,938.8
Other liabilities	21,004	14,294	11,786.1
Deferred income and advances received	2,651	10,248	6,452.3
Deferred tax liabilities	10,031	9,947	9,836.1
EQUITY			
Basic capital	5,000	5,000	5,000
Other restricted reserves			
Reserve fund	36,219	34,537	34,537
Fair value reserve			
From fair value recognition	51	182	248
Defined benefit pension plans	5,585	5,188	4,656
Unrestricted reserves			
Other reserves	22,924	22,924	22,924
Retained earnings	80,926	76,847	76,847
Profit for the period	5,966	5,805	5,444
	156,671	150,483	149,656
TOTAL LIABILITIES	**3,534,171**	**3,461,004**	**3,319,607**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(1000 €)	Basic capital	Reserve fund	Fair value reserve	Other reserves	Retained earnings	Total
Equity 1 January 2022	5,000	31,317	4,397	22,924	80,068	143,705
Profit for the period					5,444	5,444
Other comprehensive income, after tax						
Financial assets at FVOCI						
Change in fair value			-221			-221
Change in deferred taxes			44			44
Revaluation of defined benefit plans						
Actuarial gains / losses			855			855
Change in deferred taxes			-171			-171
Total other comprehensive income, after tax	0	0	507	0	0	507
Transactions with owners of the bank						
Distribution of profits		3,220			-3,220	0
Equity 30 September 2022	**5,000**	**34,537**	**4,904**	**22,924**	**82,291**	**149,656**
Equity 1 January 2023	5,000	34,537	5,371	22,924	82,652	150,483
Profit for the period					5,966	5,966
Adjustment to previous year					-44	-44
Other comprehensive income, after tax						
Financial assets at FVOCI						
Change in fair value			-164			-164
Change in deferred taxes			33			33
Revaluation of defined benefit plans						
Actuarial gains / losses			496			496
Change in deferred taxes			-99			-99
Total other comprehensive income, after tax	0	0	265	0	0	265
Transactions with owners of the bank						
Distribution of profits		1,682			-1,682	0
Equity 30 September 2023	**5,000**	**36,219**	**5,636**	**22,924**	**86,893**	**156,671**

CONSOLIDATED CASH FLOW STATEMENT

(1000 €)	1-9/2023	1-9/2022
Cash flow from operating activities		
Interest received and fee income	77,012	22,621
Interest paid and fee expenses	-55,958	-8,396
Final and expected credit losses	-140	-25
Administrative and other operating expenses	-11,013	-12,579
Total net cash flow from operating activities	**9,901**	**1,621**
Operating assets increase (-) / decrease (+)		
Receivables from customers (lending)	-61,973	-91,505
Collateral, derivatives	-1,288	-68,554
Other operating assets	-598	-826
Operating assets increase (-) / decrease (+) total	**-63,860**	**-160,885**
Operating liabilities increase (+) / decrease (-)		
Liabilities to the public and public sector organisations (deposits)	34,252	-213,211
Other operating liabilities	398	647
Income taxes	-1,248	-1,038
Operating liabilities increase (+) / decrease (-) total	**33,402**	**-213,602**
NET CASH FLOWS ACCRUED FROM OPERATING ACTIVITIES	**-20,557**	**-372,866**
Cash flows from investments		
Income from financial instruments measured at fair value and hedge accounting	15,063	123,514
Expenses from financial instruments measured at fair value and hedge accounting	-16,101	-120,583
Income from investment properties	2,279	2,362
Expenses from investment properties	-1,310	-508
Increase in investment properties	-2,109	-1,044
Decrease from investment properties	182	3,128
Change in fixed assets	-821	-1,947
NET CASH FLOWS ACCRUED FROM INVESTMENTS	**-2,817**	**4,922**
Cash flows from financing		
Financial liabilities, new withdrawals	514,648	417,809
Financial liabilities, repayments	-499,045	-192,391
Other liabilities, new withdrawals	17,047	14,025
Other liabilities, repayments	-17,960	-15,524
NET CASH FLOWS ACCRUED FROM FINANCING	**14,690**	**223,920**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**-8,684**	**-144,025**
Cash and cash equivalents at the beginning of the period	**557,780**	**587,922**
Cash and cash equivalents at the end of the period	**549,096**	**443,897**
CHANGE IN CASH AND CASH EQUIVALENTS	**-8,684**	**-144,025**

NOTES

1. Key accounting policies

This Interim Report applies the same IFRS accounting policies as the Group's Financial Statements on 31 December 2022. 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 2023.

The Interim Report does not contain all information or notes that are required in the Annual Financial Statements. The Interim Report should be read in conjunction with the Group's Financial Statements 2022 and Stock Exchange Releases published during 1 January to 30 September 2023. The figures in the tables in the Interim 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 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 Bostadsaktiebolaget Taos is accounted for using IFRS 11 Joint Arrangements -standard. Assets, liabilities, revenue and expenses of the joint operations are recognized in relation to Hypo Group's interest in the joint operation. Inter-company transactions and balances between Group companies are eliminated.

2. New standards and interpretations

Standards and interpretations entered into force during the financial period have not had a material effect on Group's Financial Statements. Accordingly, the new standards and interpretations published by the IASB that have not yet been adopted are not expected to have a material effect on the consolidated Financial Statements.

The structure of the group's balance sheet, income statement and cash flow statement have been adjusted to better consider the IAS 1 and IAS 7 regulations. The comparison period amounts have been adjusted accordingly.

3. Issuances and repayments of debt securities and equity instruments

Issuances, repayments and repurchases of debt securities appear on cash flow statement for the period from 1 January to 30 September 2023. Equity instruments have not been issued nor repaid during the period from 1 January to 30 September 2023.

4. Capital Adequacy Information

Hypo Group's own funds and capital ratios

(1000 €)	30.9.2023	31.12.2022
Common Equity Tier 1 (CET1) capital: Instruments and reserves		
Capital instruments and the related share premium accounts	5,000	5,000
of which: Basic capital	5,000	5,000
Retained earnings	80,926	76,847
Accumulated other comprehensive income and other reserves	64,779	62,831
Independently reviewed interim profits net of any foreseeable charge or dividend	5,966	5,805
Common Equity Tier 1 (CET1) capital before regulatory adjustments	156,671	150,483
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets	-4,025	-2,991
Deferred tax assets that rely on future profitability	-4	-8
Value adjustments due to the requirements for prudent valuation	-230	-257
Defined-benefit pension fund assets	-11,158	-10,282
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-15,416	-13,537
Common Equity Tier 1 (CET1) capital	141,255	136,947
Additional Tier 1 (AT1) capital	0	0
Tier 2 (T2) capital	0	0
Total capital (TC = T1 + T2)	141,255	136,947
Total risk weighted assets	1,009,533	991,991
Capital ratios and buffers		
Common Equity Tier 1 (CET1) as a percentage of total risk exposure amount	14.0	13.8
Tier 1 (T1) as a percentage of total risk exposure amount	14.0	13.8
Total capital as a percentage of total risk exposure amount	14.0	13.8
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
Discretionary capital add-on (Pillar 2), %	0.75	0.75
Commom Equity Tier 1 available to meet buffers, %	10.5	10.3

The own funds and capital adequacy are presented in accordance with the EU’s Capital Requirements Regulation (575/2013).
The capital requirement for credit and counterparty credit risk is calculated using the standard method.
The capital requirement for operational risk is calculated using the basic method.
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 €)	30.9.2023			
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	485,327	532,236	0	0
Exposures to regional governments or local authorities	32,716	38,901	0	0
Exposures to international organisations	2,034	2,034	0	0
Exposures to credit institutions	57,217	75,215	25,288	2,023
Exposures to corporates	40,118	1,518	1,156	93
Retail exposures	48,642	10,586	7,496	600
Exposures secured by mortgages on immovable property	2,999,341	2,866,370	841,594	67,328
Exposures in default	4,305	4,288	4,350	348
Exposures in the form of covered bonds	15,866	15,866	1,587	127
Equity investments	24	24	24	2
Other items	64,487	64,487	64,487	5,159
	3,750,078	**3,611,525**	**945,982**	**75,679**
Operational risk			43,863	3,509
Other risks			19,688	1,575
All items in total	**3,750,078**	**3,611,525**	**1,009,533**	**80,763**

(1000 €)	31.12.2022			
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	487,574	536,185	0	0
Exposures to regional governments or local authorities	32,831	39,298	0	0
Exposures to international organisations	2,016	2,016	0	0
Exposures to credit institutions	60,328	74,750	23,864	1,909
Exposures to corporates	40,221	951	817	65
Retail exposures	36,518	5,301	3,975	318
Exposures secured by mortgages on immovable property	2,951,707	2,809,490	827,644	66,212
Exposures in default	3,604	3,596	3,649	292
Exposures in the form of covered bonds	20,453	20,453	2,045	164
Equity investments	24	24	24	2
Other items	64,161	64,161	63,661	5,093
	3,699,437	3,556,224	925,679	74,054
Operational risk			43,863	3,509
Other risks			22,450	1,796
All items in total	**3,699,437**	**3,556,224**	**991,991**	**79,359**

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 Global ratings, 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 Article 438 of the EU's Capital Requirements Regulation (575/2013).
The other risk-weighted items consist of credit valuation risk (CVA).

5. Contingent liabilities and other off-balance sheet commitments

(1000 €)	30.9.2023	31.12.2022
Irrevocable commitments given on behalf of a customer		
Granted but unclaimed loans	259,432	278,051
Total	259,432	278,051

6. Fair values of financial instruments

(1000 €)		30.9.2023	31.12.2022
Financial assets	Fair value determination principle	Fair value	Fair value
Debt securities eligible for refinancing with central banks	1	122,909	140,315
Derivative contracts	2	2,716	2,827
Total		125,625	143,143
Financial liabilities			
Derivative contracts	2	104,087	112,984

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

Fair value determination principles:

1: Quoted prices in active markets

2: Verifiable price, other than quoted

3: 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. The fair value of the derivative contracts contains accrued interest. Fair value of other financial instruments as per 30.9.2023 contains accrued interests. There have been no transfers between the stages (1, 2, 3).

7. Related party information

Hypo Group’s related parties include its subsidiary, members of the Board of Directors and the Supervisory Board, CEO and vice 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.

There have been no other material changes in the related party transactions since 31 December 2022.

8. IFRS 9 expected credit losses by stage

(1000 €)	30.9.2023 Net book value	30.9.2023 Expected credit loss allowance	31.12.2022 Net book value	31.12.2022 Expected credit loss allowance
Debt instruments, FVOCI				
Level 1, performing loans, no significant increase in credit risk	53,073	0	53,346	0
Receivables from the public and public sector entities				
Level 1, performing loans, no significant increase in credit risk	2,785,991	15	2,717,711	17
Level 2, performing loans with a significant increase in credit risk	19,845	30	28,352	27
Level 3, non-performing loans	4,267	188	3,853	189
Total	**2,810,103**	**233**	**2,749,916**	**233**
Off-balance sheet commitments; granted but undrawn loans				
Level 1, performing loans, no significant increase in credit risk	259,432	0	278,051	1

There were no significant ECL-level transitions during the financial period. New loans were originated to level one. The Forward Looking Factor (FLF) of the ECL model is on level 2.
The level of FLF is evaluated monthly.
The net book value does not include accrued interest.

(1000 €)	1–9/2023 Net expected credit losses with P&L impact	1–9/2022 Net expected credit losses with P&L impact	7–9/2023 Net expected credit losses with P&L impact	7–9/2022 Net expected credit losses with P&L impact	1–12/2022 Net expected credit losses with P&L impact
Debt instruments, FVOCI					
Level 1, performing loans, no significant increase in credit risk	0	0	0	0.3	0
Receivables from the public and public sector entities					
Level 1, performing loans, no significant increase in credit risk	2	-5.6	2	-7	-8
Level 2, performing loans with a significant increase in credit risk	-3	9.8	0	0	45
Level 3, non-performing loans	1	-36.6	50	-51	-60
Total	**0**	**-32.3**	**52**	**-58**	**-22**
Off-balance sheet commitments; granted but undrawn loans					
Level 1, performing loans, no significant increase in credit risk	1	0.1	1	-0.5	-1

9. IFRS 15 Income distribution

Group's total income
(1000 €)

	1–9/2023	1–9/2022	7–9/2023	7–9/2022	2022
Interest income	90,179	22,580	34,812	8,422	35,145
Interest expense	-76,983	-8,868	-29,577	-3,465	-19,882
Net interest income	13,197	13,712	5,235	4,957	15,264
Net fee income					
from lending operations	1,907	1,406	519	402	1,864
from land trustee services	1,474	1,114	755	633	1,545
from other operations	144	192	-259	-189	183
Total net fee income	3,525	2,712	1,015	846	3,592
Net income from treasury operations	-1,038	4,179	-941	1,249	2,796
Net income from investment properties	1,476	1,671	410	799	2,536
Capital gains on investment properties	28	404	27	375	226
Other income	2,198	-28	-11	-10	209
Non-interest income	2,665	6,226	-516	2,414	5,766
Total income	19,386	22,650	5,735	8,216	24,622

10. IFRS 16 Leases

Hypo Group as lessee
(1000 €)

Right-of-use assets	1–9/2023	1–9/2022	2022
Depreciation - IT	0	0	0
Depreciation - Apartments	32	205	273
Carrying amount - IT	0	0	0
Carrying amount - Apartments	405	341	273

Lease liabilities			
Interest expense	1	9	11
Carrying amounts sorted by remaining maturity			
Non-fixed-term leases	405	344	276

Relief options			
Expenses from leases of low-value assets	5	6	11

Hypo Group leases storage spaces and parking lots in Helsinki.

Hypo Group as a lessor
(1000 €)

Operative leases	1–9/2023	1–9/2022	2022
Lease income	1,166	1,262	2,143
Undiscounted lease payments to be received			
1 year	718	380	361
2 year	377	178	184
3 year	356	170	170
4 year	340	151	157
5 year	164	151	157
>5 years	4,307	4,118	4,174

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

11. Information concerning asset encumbrance

30 September 2023 (1000 €)	Book value of encumbered assets	of which notionally elligible EHQLA and HQLA	Fair value of encumbered assets	of which notionally elligible EHQLA and HQLA	Book value of unencumbered assets	of which EHQLA and HQLA	Fair value of unencumbered assets	of which EHQLA and HQLA
A - Assets	2,417,135		2,417,135		1,117,036		1,117,036	
Equity instruments					24		24	
Debt securities	19,554	19,554	19,554	19,554	103,308	103,308	103,308	103,308
Other assets, including lending	2,397,580	6,000	2,397,580		1,013,704	419,579	1,013,704	

B - Collateral received

	Unencumbered Fair value of collateral received or own debt securities issued available for encumbrance
Own covered bonds and asset-backed securities issued and not yet pledged	15,489

C - Encumbered assets and associated liabilities

	Liabilities associated with encumbered assets	Encumbered assets
Book value of selected financial liabilities	50,838	76,396
Debt securities issued to the public	1,596,760	2,252,986
Derivative contracts	66,286	87,752
Total	1,713,884	2,417,135

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 2,417.1 million, out of which of covered bonds were EUR 2,253.0 million on 30 September 2023. 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 103.3 million on 30 September 2023. EUR 251.7 million of unencumbered loans may be used as collateral for covered bonds.

31 December 2022 (1000 €)	Book value of encumbered assets	of which notionally elligible EHQLA and HQLA	Fair value of encumbered assets	of which notionally elligible EHQLA and HQLA	Book value of unencumbered assets	of which EHQLA and HQLA	Fair value of unencumbered assets	of which EHQLA and HQLA
A - Assets	2,006,658		2,006,658		1,454,346		1,454,346	
Equity instruments					24		24	
Debt securities	19,523	19,523	19,523	19,523	121,267	121,267	121,267	121,267
Other assets, including lending	1,987,136	-	1,987,136		1,333,055	394,473	1,333,055	

B - Collateral received

	Unencumbered Fair value of collateral received or own debt securities issued available for encumbrance
Own covered bonds and asset-backed securities issued and not yet pledged	13,890

C - Encumbered assets and associated liabilities

	Liabilities associated with encumbered assets	Encumbered assets
Book value of selected financial liabilities	48,728	62,073
Debt securities issued to the public	1,581,034	1,858,713
Derivative contracts	107,518	85,872
Total	1,737,280	2,006,658

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 2,006.7 million, out of which of covered bonds were EUR 1,858.7 million on 31 December 2022. 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 121.3 million on 31 December 2022. EUR 128.3 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, million €	Interest income + income from equity investments + fee income + net income from financial assets at fair value through other comprehensive income + net income from financial instruments at FVPL + net income from hedge accounting + income from investment properties + other operating income – (personnel expenses + administrative expenses + depreciation and impairment losses on tangible and intangible assets + other operating expenses+ impairment 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	x 100
Cost-to-income ratio %	Personnel expenses + 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 financial instruments at FVPL + net income from available-for-sale financial assets + net income from hedge accounting + net income from investment properties + other	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 Loan-to-value ratio is calculated by dividing the outstanding loan balance with the fair value of the total amount of the collaterals allocated to the loan. Only housing and residential property collaterals are taken into account. The average LTV ratio is the weighted average of individual loan-to-value ratios.	x 100
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 Total funding includes liabilities to credit institutions, liabilities to the public and public sector entities, debt securities issued to the public as well as subordinated liabilities.	x 100
Long-term funding out of total funding %	Total funding with a remaining maturity of 12 months / Total funding Total funding includes liabilities to credit institutions, liabilities to the public and public sector entities, debt securities issued to the public as well as subordinated liabilities.	x 100
Short-term liquidity, months	Coverage of short-term liquidity to wholesale funding cash flows (difference of days multiplied with 365 (days in a year)multiplied with 12 (months in a year))	

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
LCR-ratio %	Liquid assets / Outflow of liquidity – Inflow of liquidity (within 30 days)	x 100
NSFR-ratio %	Available stable funding / Required stable funding	x 100
Leverage Ratio %	Equity + accumulated appropriations less deferred tax liabilities / Balance sheet total	x 100
Common Equity Tier 1 (CET1) ratio %	Common Equity Tier 1, CET1 / Total risk The capital requirement for total risk is calculated using the standard method. The capital requirement for operational risk is calculated using the basic method.	x 100

Risk-absorbing key figures are presented in accordance with the EU's Capital Requirements Regulation (EU 575/2013).

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.

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 (Financial Statements Release) 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

Opinion on the review of the 1 January – 30 September 2023 Interim Report of the Mortgage Society of Finland (Translation)

Introduction

We have reviewed the condensed interim financial information of the Mortgage Society of Finland's, which comprise the balance sheet as of 30 September 2023, income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the nine-month period then ended and notes. The Board of Directors and the Managing Director are responsible for the preparation of the condensed interim financial information in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting", as adopted by the European Union and with regulations governing the preparation of interim financial information in Finland. We will express a conclusion on this condensed interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2410, which applies to a review of historical financial information performed by the independent auditor of the entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards 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 condensed interim financial information of the Mortgage Society of Finland for the nine-month period ended on 30 September 2023 is not prepared, in all material respects, as regards the Group financial information, in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting", as adopted by the European Union and other regulation governing the presentation of interim financial information in Finland.

Helsinki 1 November 2023

PricewaterhouseCoopers Oy
Authorised Public Accountants

Jukka Paunonen
Authorised Public Accountant (KHT)

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