

# Hypo Credit Update 1Q2015

Investor Presentation, April 2015



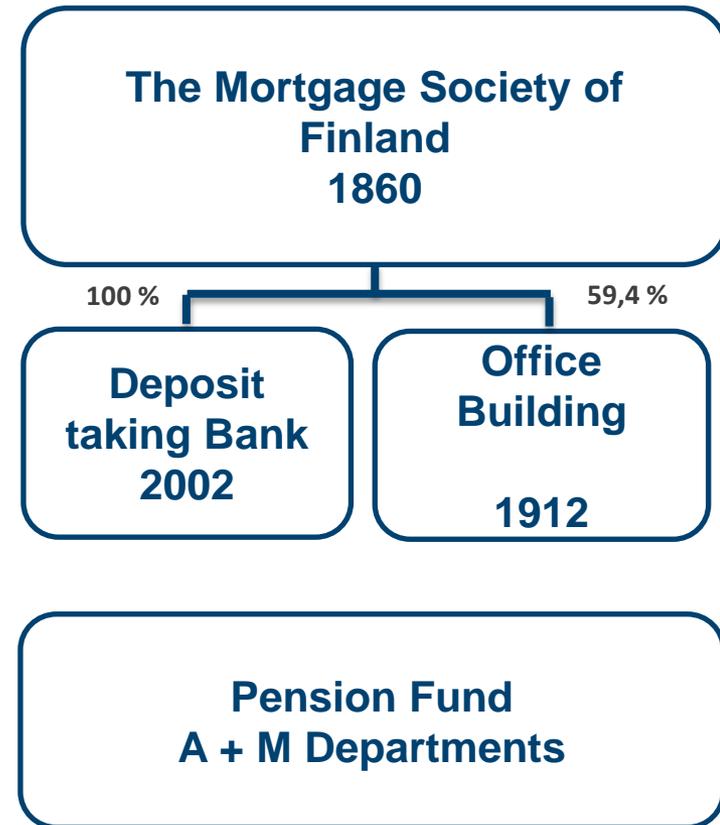


**Secure Way for Better Living**

# Hypo Group Overview



- Founded in 1860
  - The oldest private credit institution in Finland
- Retail banking, no corporate lending
- Supervised by the FIN-FSA
- Specialised in mortgage financing
- Residential property always as collateral
- Mutual company governed by the member customers
  - All returns are kept within Hypo
- Strong loan book (NPLs 0.19%)
- Well-known and frequent borrower in Finland
- Total assets EUR 1.6 billion







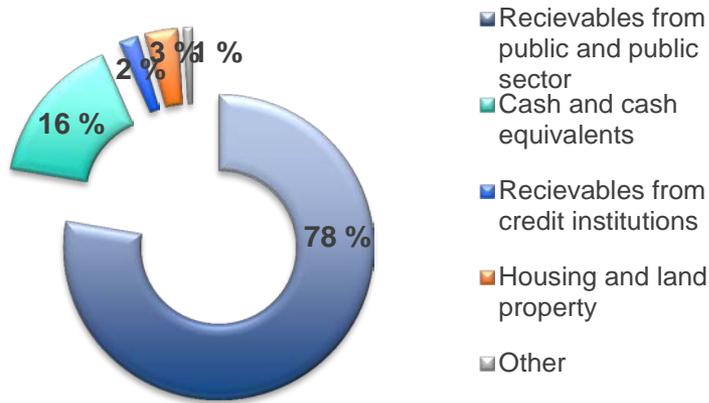
# Financial Results 1Q2015

# Hypo Group Balance Sheet

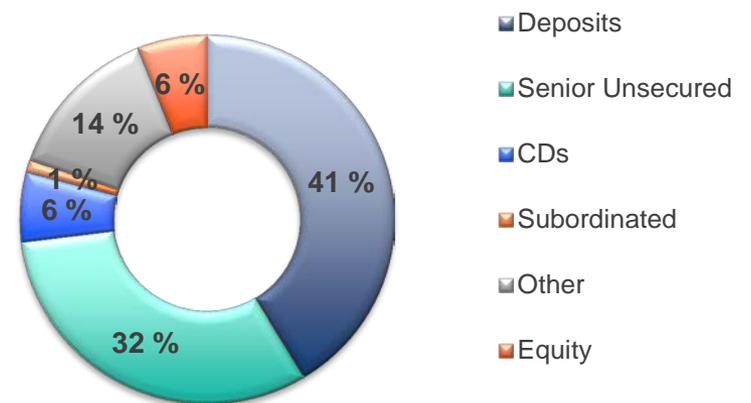
## EUR 1.6 billion



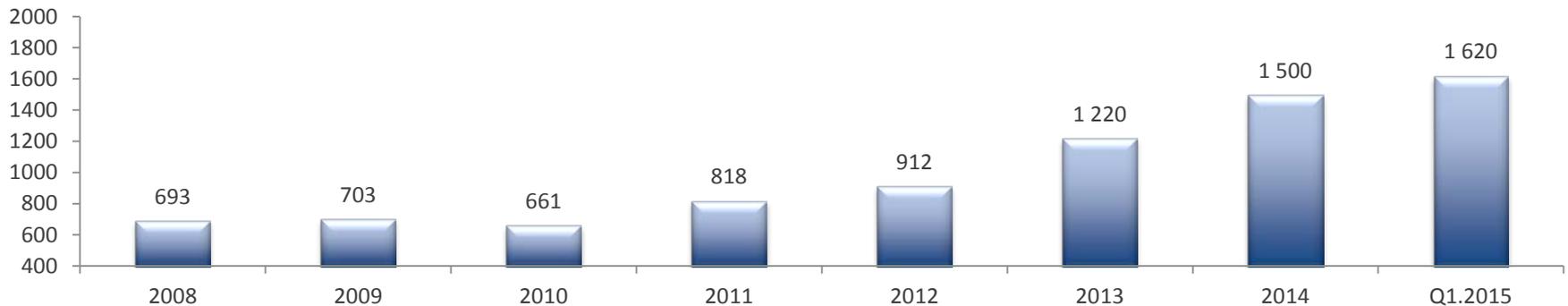
Total Assets 31.3.2015



Liabilities and Equity 31.3.2015



Hypo Group Balance sheet total 2008-1Q2015



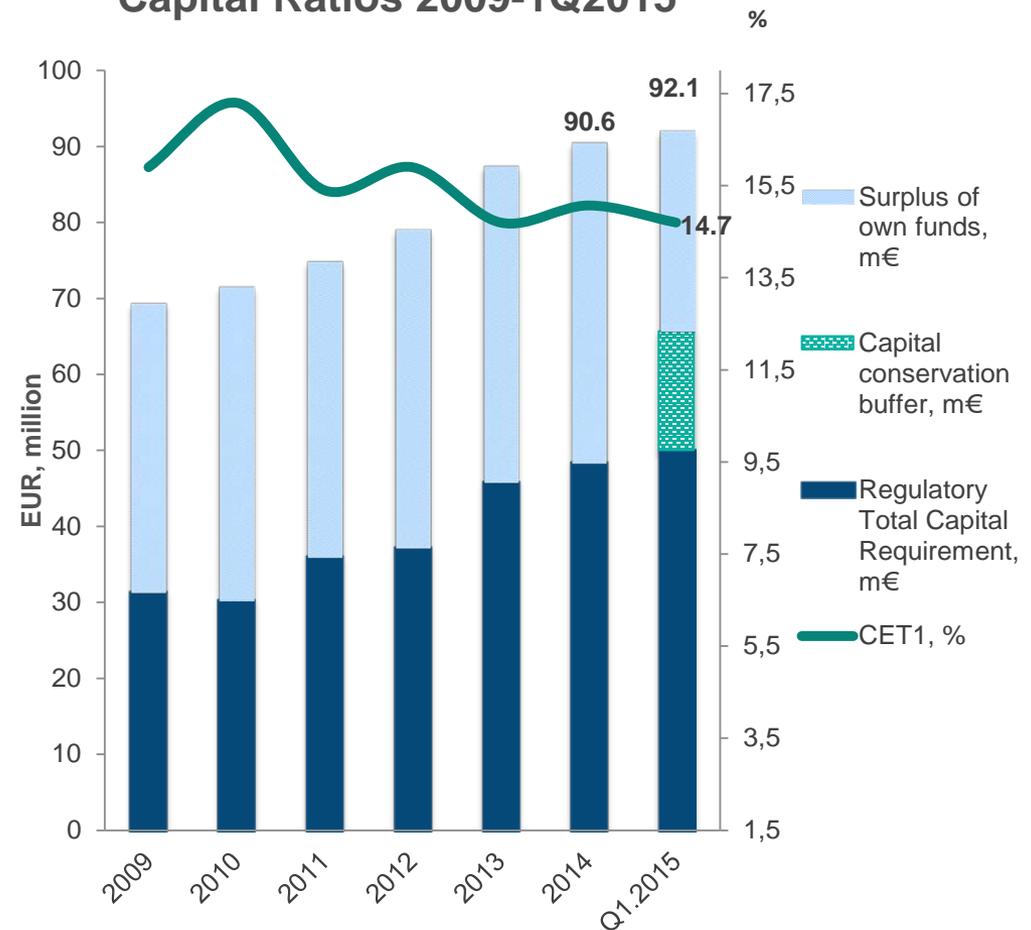
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# Solid Capital - Reporting under the Standard Method



- Basel III standard approach
- Common Equity Tier 1 at 14.7%
- EUR 26 million of excess capital after applying
  - Regulatory TC requirement 8.0%
  - Capital Conservation Buffer 2.5%
- Standard approach risk weights
  - Lending with Residential collateral: 35% risk weight
  - Housing units and land owned: 100% risk weight
- Mutual company, all profits retained and added to core capital
- Hypo is CRD/CRR IV compliant
- Capital ratios around same level with Finnish peers applying internal methods
  - Estimated CET1 around 26% if Hypo used IRBA-model for mortgage risk weights

Capital Ratios 2009-1Q2015



# Group Income Statement 1Q2015



(1000 €)	1-3/2015	1-3/2014	2014
<b>Net interest income</b>	1 346	1 530	6 427
<b>Net fee and commission income</b>	937	713	3 610
<b>Total other income</b>	2 209	1 687	7 219
<b>Total expenses</b>	-2 306	-2 395	-9 759
<b>Operating profit</b>	2 186	1 535	7 498

- The Hypo Group's operating profit for 1Q2015 improved by 42% to EUR 2.2 million (EUR 1.5 million 1Q2014).
- NII decreased to EUR 1.3 million (1.5 million) due to low interest rate environment
- Net fee and commission income for the period increased to EUR 0.9 million (0.7 million).
- Total other income (incl. Treasury operations and investments in housing and residential land) increased to EUR 2.2 million (1.7 million)
- Total operating expenses remained at EUR 2.3 million (2.4 million)

# Group Key Financial Figures



HYPO

	1-3/2015	1-3/2014	2014
<b>Common Equity Tier 1 ratio (%)</b>	14.7	14.7	15.1
<b>Cost-to-income ratio (%)</b>	51.5	61.1	56.4
<b>Non-performing assets, % of the loan portfolio</b>	0.19	0.19	0.23
<b>Loan-to-value ratio (%)</b>	43.7	49.3	44.9
<b>Loans-to-deposits (%)</b>	188	275	237
<b>Loan portfolio total (m€)</b>	1 260	1 026	1 204
<b>Balance sheet total (m€)</b>	1 620	1 228	1 499

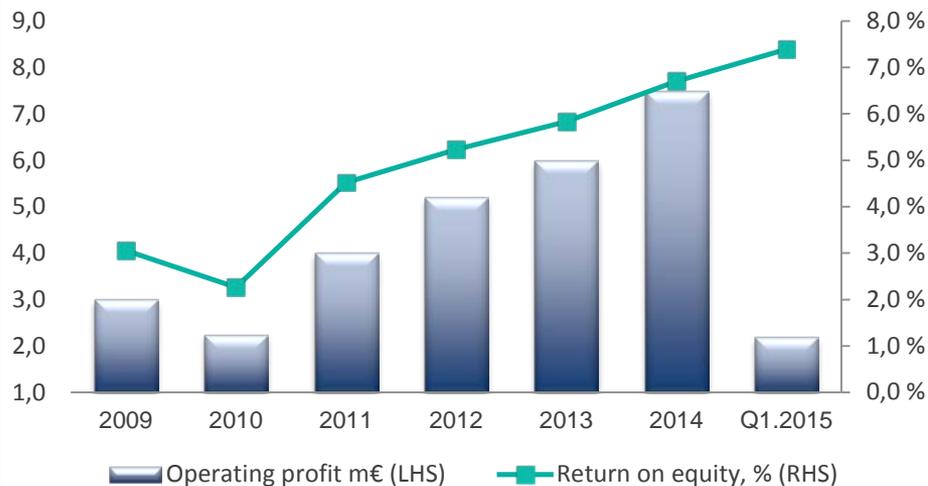
- Group total assets increased to EUR 1.6 billion (EUR 1.2 billion 1Q14)
- Loan portfolio increased to EUR 1.26 billion (1.0 billion 1Q14)
- Group's CET1 ratio remained stable at 14.7% (14.7% 1Q14)
- Average LTV lowered to 43.7% (49.3%)
- Group's financing position remained stable throughout the period

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# Financial Performance - Increasing profitability despite lower interest rates

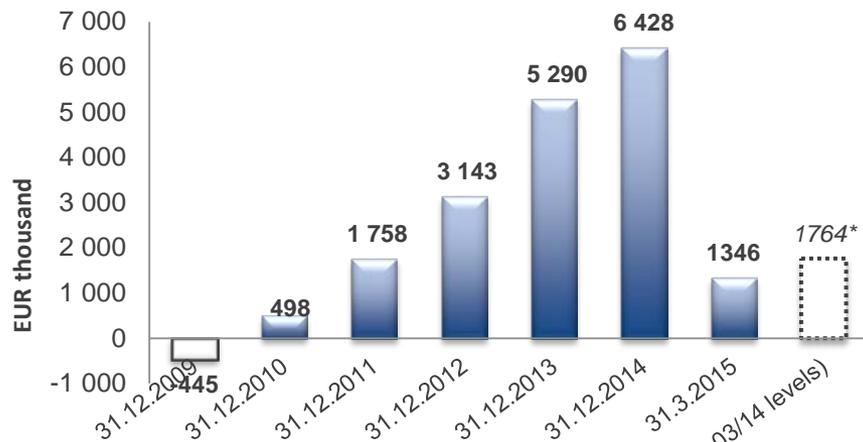


## Profitability



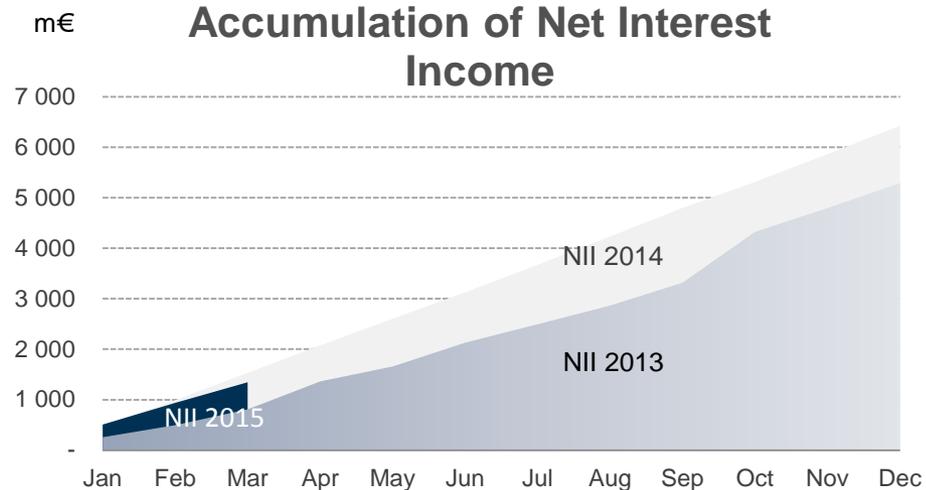
- The Group return-on-equity further improved to 7.4% (6.74% ye2014)
- The Group operating profit for 1Q2015 improved by 42% to EUR 2.2 million (1.5 million 1Q14)
- Net interest income decreased 12% y-o-y to EUR 1.35 million (1.5 million) due to low interest rate environment and simultaneously conducted significant increase in liquidity
- Cost-to-income ratio lowered to 51.5% (61.1% 1Q14)

## Net Interest Income 2009-1Q2015



\* NII if increased liquidity was invested with same return as in 1Q2014.

## Accumulation of Net Interest Income



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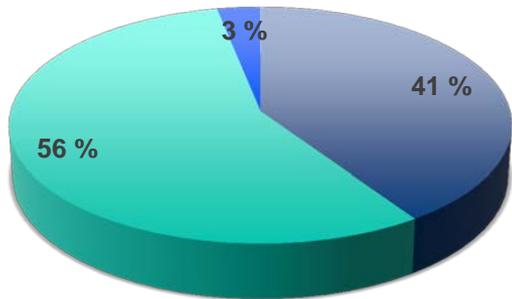
# Hypo's Loan Book

# Loan Book Overview



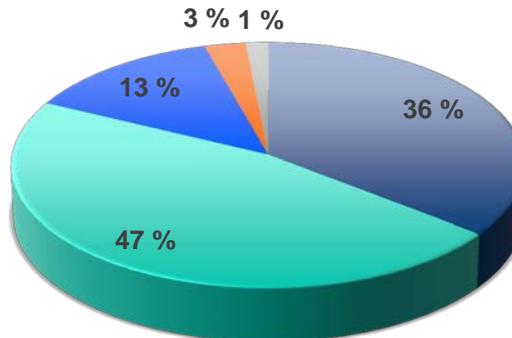
- Mortgage loans secured by residential property
- Collateral requirement is set in the Finnish Act on Mortgage Societies
- Two main customer groups
  - Private individuals and households: home mortgage, buy-to-let
  - Housing companies: renovation loans, construction phase loans

**Lending by Customer Type 31.3.2015**



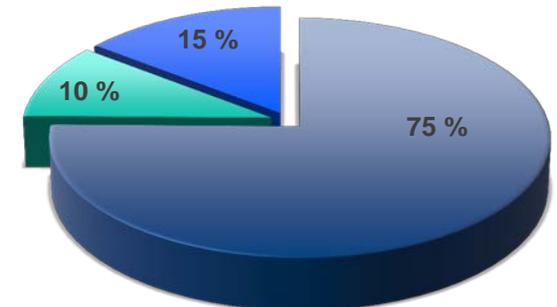
- Households
- Housing companies and housing investors
- Housing companies under construction

**Lending by Purpose of Use 31.3.2015**



- Permanent dwelling
- Housing companies
- Housing investors (buy-to-let)
- Reverse loans
- Consumer loan w/ residential collateral

**Lending by Customer Domicile 31.3.2015**



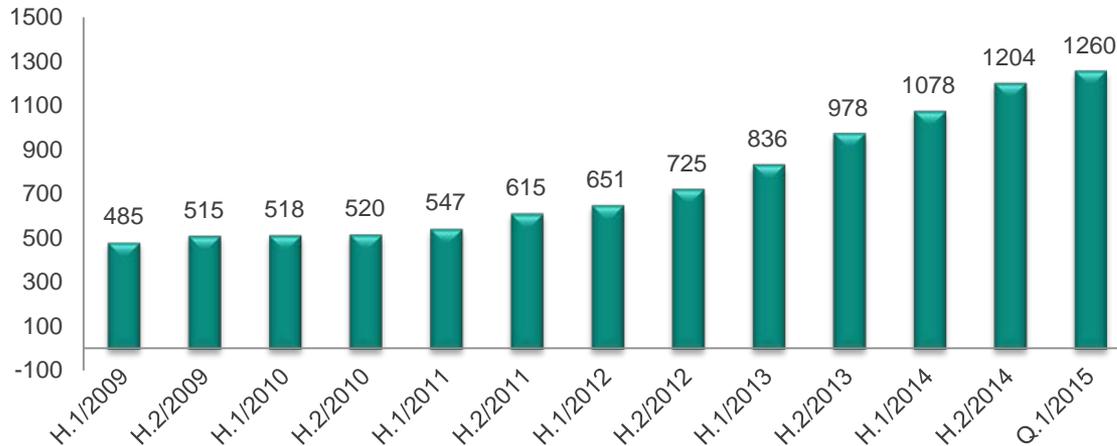
- Helsinki Metropolitan Area
- Other growth cities (outside of Uusimaa)
- Other areas (incl. Rest of Uusimaa)

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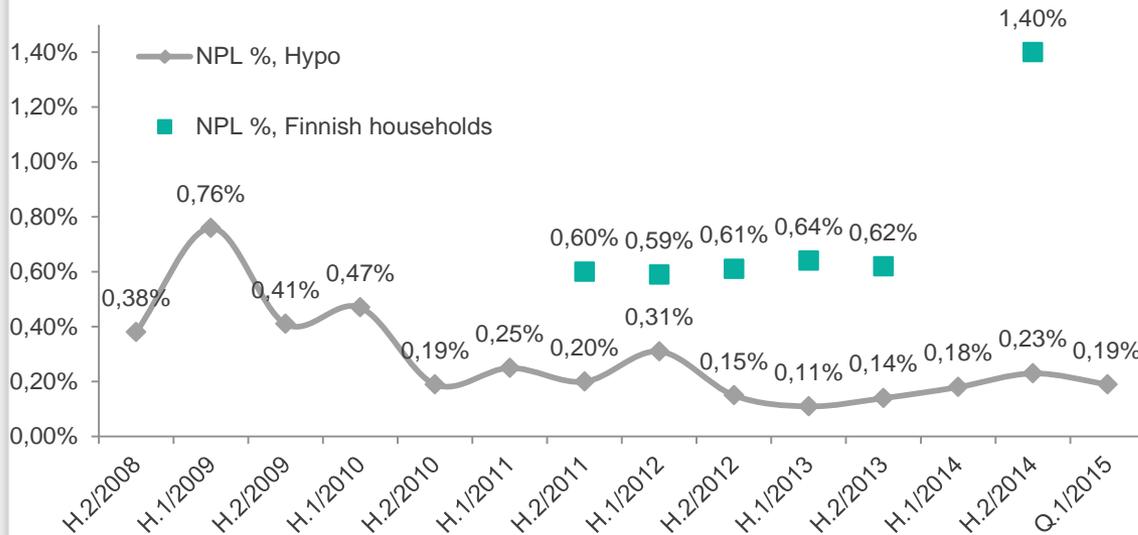
# Hypo Loan Book Growing Steadily



Hypo Loan Book Total, m€



Non-performing Loans, %



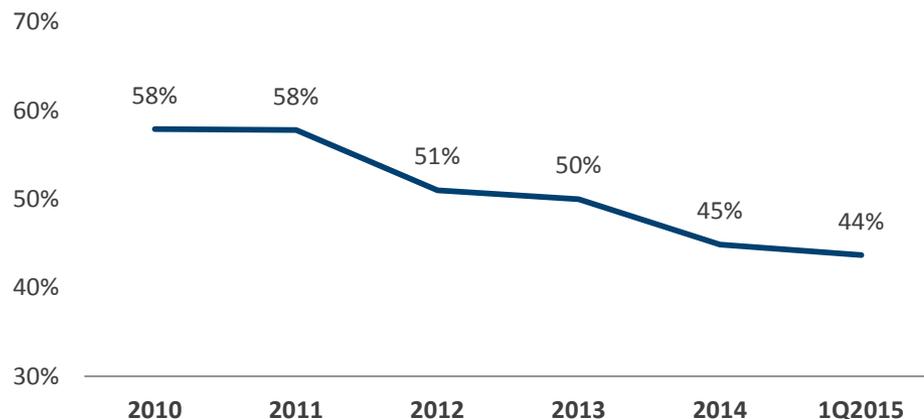
- Hypo's loan book increased 3% during 1Q2015 reaching EUR 1.26 billion (1.2 billion ye2014)
- All lending against residential collateral
- Only EUR denominated lending
- Collateral must be located in Finland
- Strategic concentration in the Helsinki Metropolitan Area and other specified growth areas
- The amount of non-performing loans remain at very low level at 0.19% of the total loans
- The quality of the loan book well above the Finnish household average NPLs (1.4% ye2014)

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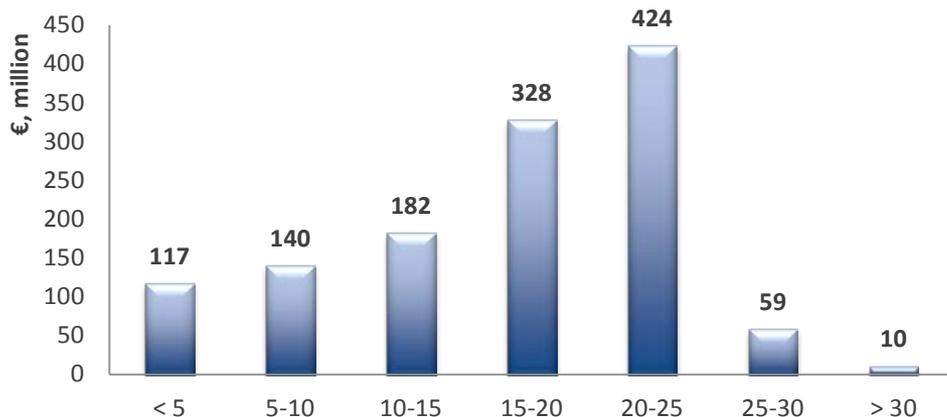
# Loan Book Quality Excellent



## Hypo Loan Book Average LTV 2010-1Q2015



## Loan Book by remaining maturity (years) as at 31.3.2015

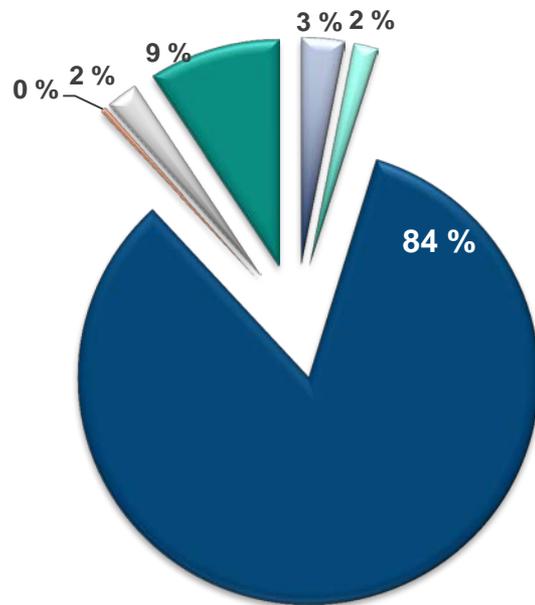


- Hypo's loan portfolio is entirely secured by residential property
- The average LTV (loan-to-value) further improved to 43.7% (44.9% year end 2014)
- The average maturity of a loan at the time of withdrawal is 16 years
- Financed properties mainly located in the population dense Helsinki Metropolitan Area.
- Low LTV combined with conservative collateral valuation makes Hypo's loan book very strong even in times of stress

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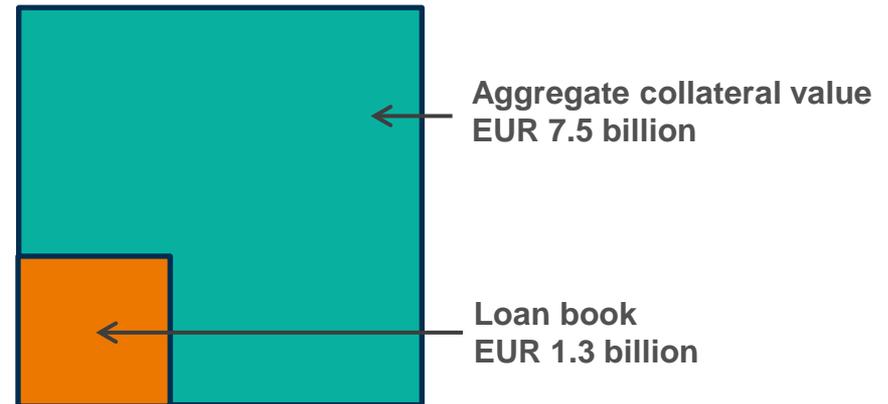
# Lending – collateral characteristics

Assets by Collateral Risk Weight as at 31.3.2015 (Basel Standard Method)



- Risk Weight 0 %
- Risk Weight 20 %
- Risk Weight 35 %
- Risk Weight 50 %
- Risk Weight 75 %
- Risk Weight 100 %

Loan Book vs. Residential Property Collateral





## Funding and Liquidity

# ”Put us in the middle”



HYPO

FACTOR	UNSECURED BOND ISSUED BY A BANK (FIN)	HYPO BOND (FIN)	COVERED BOND ISSUED BY A MORTGAGE BANK (FIN)
Age of instrument	Over 160 years	154 years	13 years
Statutory	No	Yes (served as a model for covered bonds)	Yes
Supervision	Financial Supervisory Authority	Financial Supervisory Authority	Financial Supervisory Authority
Creditor's position in case of bankruptcy	Below holders of securities	Practically similar to that of holders of securities through Hypo's balance sheet	Holder of security
Limitations and risk level	Normal	Operations are limited but allow for multiple sources of profit/low risk level	Operations are very limited/low risk level
Corporate governance	Meets the requirements for listed companies	Upgraded in 2004/meets the requirements for listed companies	Meets the requirements for listed companies
Form of organisation/continuity of ownership	Usually a limited company/ can be taken over	Own/cannot be taken over in practice = continuity	Usually a limited company/ can be taken over
Collateral for lending/LTV ratio	No limit	Always required/max. 70%/in practice less than 60%	Always required/max. 60%-70%
Geographical distribution of loan portfolio	Finland	Helsinki Metropolitan Area/ Uusimaa region/ Growth Centres	Finland
Transparency of reporting	Complicated	Highly transparent	Transparent, but connected to the parent company
IFRS/IRBA (method with lower capital requirement)	Yes/Usually yes	Yes/No (only the standard method is used = higher capital requirement)	Yes/Usually yes

*The table compares bonds ("old style mortgage bonds") issued by the Mortgage Society of Finland with senior unsecured bonds and covered bonds issued by other credit institutions.*

The information and conclusions in the table are general statements and opinions on the compared instruments and their issuers. These statements and opinions may include simplifications, as may the information in the table on which they are based. More detailed conclusions about the differences between the various instruments and issuers may only be made by evaluating and comparing the specific terms and conditions related to single issuances of instruments as well as the legislation pertaining to the instruments and their issuers.

# Funding Strategy



- Main funding through EUR denominated senior unsecured issues
  - All bonds listed on the NASDAQ OMX Helsinki Oy trading list
  - Issued under domestic MTN programme
  - Currently aiming at min. EUR 100 million issue sizes
    - Positive market response, guarantees better liquidity
- Deposit funding through the AsuntoHypoPankki, a 100% subsidiary
- Other funding sources
  - Commercial Deposits
  - Bilateral loans
  - Committed credit lines from other financial institutions

## Hypo's outstanding issues as at 31.3.2015 (original amount issued)

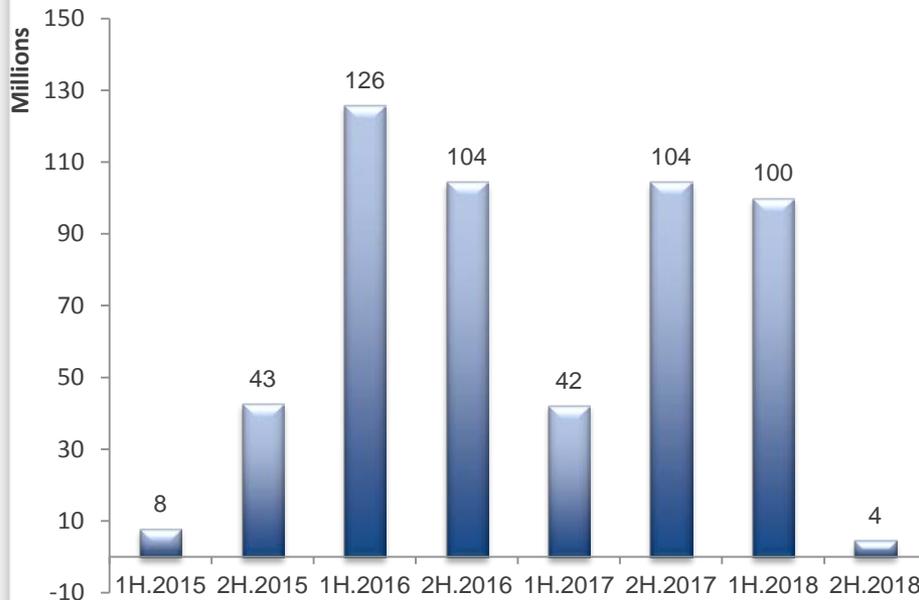
ISIN	Issue Date	Maturity Date	Type	Nominal (m€)	Coupon
FI4000047246	7.9.2012	7.3.2016	Senior Unsecured	50	FRN 6M +1,20
FI4000060322	14.2.2013	14.2.2017	Senior Unsecured	40	FRN 6M +1,10
FI4000064191	23.5.2013	23.5.2016	Senior Unsecured	(SEK) 250	FRN 3M (STIBOR) +1,38
FI4000064183	23.5.2013	23.5.2016	Senior Unsecured	50	FRN 6M +0,95
FI4000071683	29.10.2013	29.10.2015	Senior Unsecured	50	FRN 6M +0,67
FI4000076443	9.12.2013	9.12.2016	Senior Unsecured	100	FRN 6M +0,95
FI4000092598	29.4.2014	30.10.2017	Senior Unsecured	75	FRN 6M + 1,00
FI4000092598 (tap issue)	22.9.2014	30.10.2017	Senior Unsecured	25	FRN 6M + 90
FI4000123021	4.12.2014	4.6.2018	Senior Unsecured	75	FRN 6M +95
FI400012302 (tap issue)	16.1.2015	4.6.2018	Senior Unsecured	25	FRN 6M +95

# Well diversified funding profile

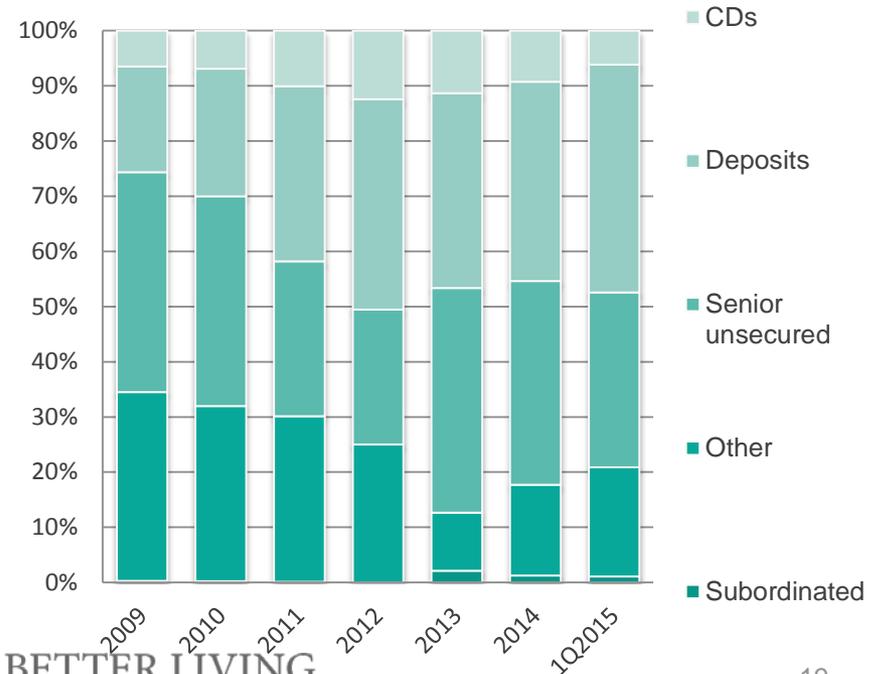


- Senior Unsecured under our own legal framework
  - Borrower is the Group Parent
  - Effectively, since lending is against residential collateral, a “cover pool” exists
  - No creditor ranks senior to the holder of senior unsecured creditor
- Solid strategy, solid financial performance
  - IFRS, transparent and timely financial Information
- Deposit funding through the AsuntoHypoPankki subsidiary, 41% of total funding

## Senior unsecured and subordinated debt maturity profile as at 31.3.2015



## Funding Structure 2009-1Q2015, m€



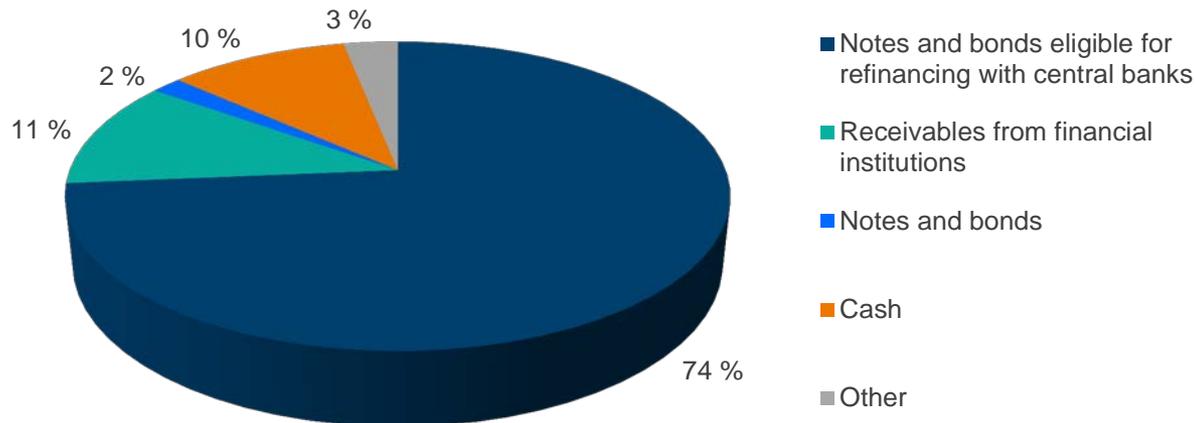
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# Solid liquidity position



- **Liquidity portfolio EUR 292 million at 31.3.2015**
  - Conservative investment policy
  - 53% of debt securities invested in at least AA- rated counterparties
  - 98% of liquidity portfolio investments ECB repo eligible
  - Only EUR denominated exposure
  - Hypo's domestic MTN and CD programmes support the liquidity management
  - Both LCR and NSFR > 100%
  - Liquidity covers maturing wholesale funding for the following 14 months

**Liquidity portfolio as at 31.3.2015**



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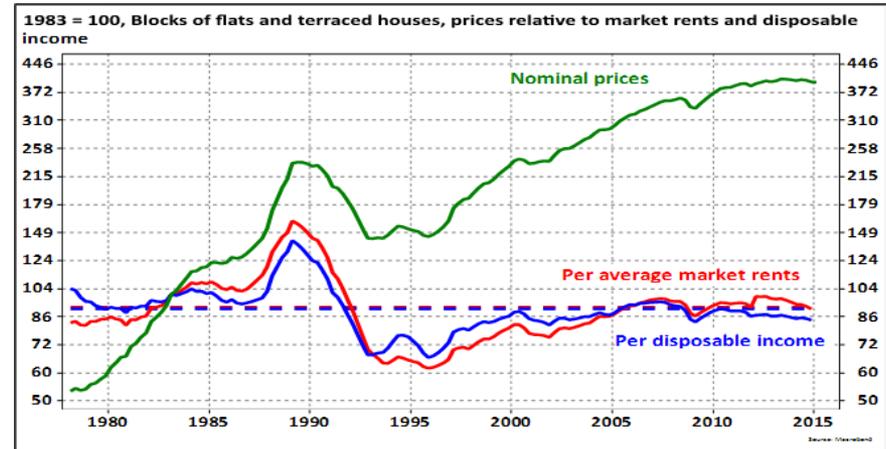
## Outlook for 2015

# Finnish Economy and Housing Market Outlook Cautious

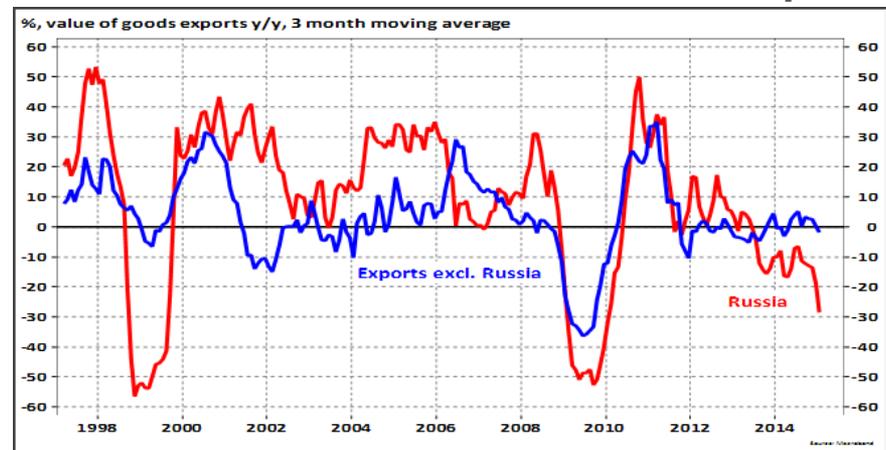


- Recent data and leading indicators point to pick-up in growth in the euro area.
- Finnish economy also benefits from lower oil prices, weaker euro and easier credit channels but to a lesser extent – due to Russia, EUR/SEK and already functioning credit markets.
- Growth will be sluggish, below 1% y/y, in 2015.
- Housing market reliant on wider economy. Unemployment edges up moderately and disposable income decreases → prices will decline slightly also in 2015, mild improvement in transaction volumes.
- Urbanization continues and shifts demand towards only a few growth centers, especially to Helsinki Metropolitan Area.
- Mortgage lending times likely to increase as amortization schedules are eased by major Finnish banks.
- Lack of newbuilding and low interest rates expected to continue into 2016.

## House prices set to decline – no bubble in sight



## Recession in Russia hurts Finnish exports



# Outlook for 2015



- The Group management estimates that the 2015 operating profit will reach 2014 levels, although the liquidity will be further strengthened.
- However, the uncertainty in the operating environment creates uncertainty also for Hypo's financial performance.
- **CEO Mr Ari Pauna**

*“Uncertain times, urbanization and the restructuring of the financial sector have increased the business and growth opportunities of the Hypo Group specializing in housing finance. Operating profit for 2015 will reach 2014 levels although the Group's liquidity position will be further strengthened.”*



## Contact details

CEO

Mr Ari Pauna  
Tel. +358 50 353 4690  
ari.pauna@hypo.fi

COO

Ms Elli Reunanen  
Tel. +358 50 527 9717  
elli.reunanen@hypo.fi

CRO

Mr Mikko Huopio  
Tel. +358 50 400 2990  
mikko.huopio@hypo.fi

Director, Funding and Treasury

Mr Petteri Bollmann  
Tel. +358 50 550 4355  
petteri.bollmann@hypo.fi

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