

# Hypo Credit Update 3Q2015

Investor Presentation, November 2015



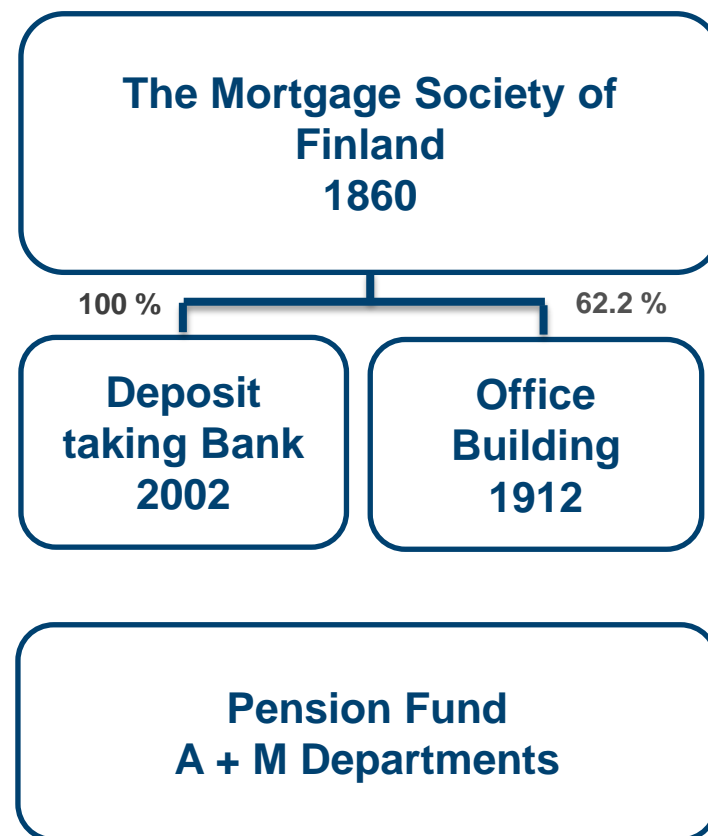


**Secure Way for Better Living**

# 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 0.22%)
- Well-known and frequent borrower in Finland
- Total assets EUR 1.8 billion
- S&P rating 'BBB/A-3'
  - The outlook is negative, reflecting S&P's view of the weak economic recovery in Finnish economy.





Hypoteekkiyhdistyksen toimitusjohtaja Ari Pautanen ehdottaa, että säästämisen voisi aloittaa 15-vuotiaana.

Anti Lehmusvirta  
anti.lehmusvirta@happalehti.fi

ASP-s33st01liln voivasta  
18-30-vuotiaa ihmisiä, jotka ei di  
alkoisin n on eristetty 50 prosent-  
tia tai enempiä asunnoista. Myös  
asio puolesta voivat nhty yndesä  
ASP-s33st01liln  
Tällise s33stetäin vähintään 10 pe-  
senttia asunnon tai talojen on t  
tuleen tulvan osuuden hinnasta  
Talletusten tulee olla ISO-3000  
euroa.  
Mahdollista saada voition kord

"Minua harmittaa, ettei järjestelmää ole ajantasaisesti. Siinä olisi monin keinoin korjattavaa."

NYT säätämisen  
18-vuotiaana. Po-  
vuotta olisi hyvä  
hintatasot pitää  
maan nykytilan  
"Asuntomark-  
ketti merkittä-  
minen vuode-  
tämisen alalle



**ASUMINEN:** - Jos perintönä on pelkkä vanha, arvonsa menettänyt lapsuudenkoti, voi olla, että perillisille jää vain muistot ja talon tekemistä ja merkittävästi kuluja, toteaa johtaja Ari Pauna.

Kotimaa 8.7.2013 klo 19:10 | päivitetty 8.7.2013 klo 19:10

Ensiasunnon ostajat ovat todella tukalassa tilanteessa, sanoo Suomen Hypoteekkiyhdistyksen toimitusjohtaja Ari Pauna.

## ASUNTOMARKKINAT

Asuntokaupan hulluja vuosia on seurannut krapula.  
Tämä on johtanut siihen, että pariutuvat sinkut.

[illegible]

...on toimitusjohtaja Ari Pauna Päivän kasvo -ohjelman vieraana. Kuvaa: Yle

...ast in asuntomarkkinoilla, usko Suomen Hypoteekkiyhdistyksen  
... Ylen Päivän kasvo -ohjelmassa vierailleen Paunan mukaan tilanne  
...upinksiöidulla ja kasuukeskukseksä kuin svärsäöidulla

untovelkaannutaan ja taantuvilla paikkakunnilla asutoköyhdytään.

an mukaan sitä, että monet muuttavat töiden perässä kasvukeskuksiin, hän ja niiden hinnat korkeita. Niin sanotuilla taantuvilla paikkakunnilla arvot putoavat.

utokset ja töiden keskittyminen eri puolille Suomea. Pauna sanoo.

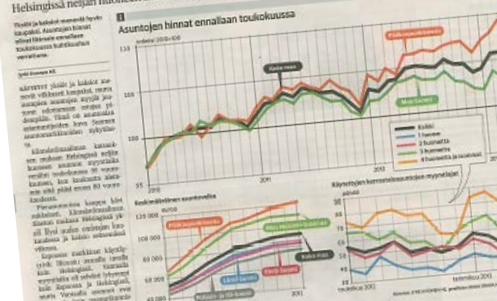
uudet paikalliskeskukset voivat tulevaisuudessa kärsiä samankaltaisesta onkalla kanssa Helsinki tällä hetkellä painii.

in nykytilanteessa ensiasunnon ostajilla on kaikkein tukalinta, sillä heihin

n kaikenlaisten asuntojen rakentamista sinne, missä on kysyntää, Pauna sanoo.

# Pikkuasuntojen kauppa käy

**Pikkuasuntojen**  
Helsingissä neljän huoneen asunnon myyntiaika on pidentynyt parilla viikolla.



Asistentiņas evakuācija  
tiekatviesos tiešsaistē  
saziņojot īpaši ievēroti  
noteikumi.

**AIKTORANGATUKSEN** arkkitehti- ja insinööri- ja suunnittelutoimisto **Arkkitehti- ja Insinööri- ja Suunnittelutoimisto** on perustettu vuonna 1998. Toimisto on osa **Arkkitehti- ja Insinööri- ja Suunnittelutoimisto** Oy:ä, joka on osa **Arkkitehti- ja Insinööri- ja Suunnittelutoimisto** Oy:ä.

[illegible]

**Tobacco**

**Teksti Taina Vuokko**

**ASUNTOJEN MYYNTI** on hidastunut merkit-  
tävästi. Ennen varainsiirtoveron maaliskui-

Kiinteistöräjäytystien Keskusliiton mukaan kauppaäärät vähenivät kymmenen prosenttia tammi-kesäkuussa verrattuna viime vuoden vastaavaan ajankohtaan. Suomalaiset kotitaloudet ovat Suomen Pankin

mukaan ottaneet entistä vähemmän uusia asuntolainoja.

"Kasvukeskusten pienet kerrostaloas-  
not menevät yhä kaupaksi, mutta se-  
not perheasuntojen kauppa on seiso-  
Asuntomarkkinat ovat yhä voimakkaa-  
eriytyneet eri paikkakuntien ja asun-  
pien mukaan", asuntolainoihin en-  
neen Hypoteekkiyhdistyksen toimitus-  
talon Ari Panna sanoo.

Asuntomarkkinoilla on Ari Paunan  
kannusta lämpimästi asuntovarallisuuden is

[illegible][illegible]

Heikoimmassa asemassa taas o

[illegible]

...e, per esempio, il fatto che il nostro Paese ha una delle più alte percentuali di disoccupazione giovanile in Europa. E che, in termini di crescita, siamo ancora molto lontani dal raggiungere i livelli dei paesi che hanno fatto il miracolo del boom economico degli anni Sessanta e Settanta. E che, in termini di competitività, siamo ancora molto lontani dal raggiungere i livelli dei paesi che hanno fatto il miracolo del boom economico degli anni Sessanta e Settanta. E che, in termini di competitività, siamo ancora molto lontani dal raggiungere i livelli dei paesi che hanno fatto il miracolo del boom economico degli anni Sessanta e Settanta.

... ..

an nykytilanteessa ensias  
ita kiristystoimia.

n kaikenlaisten asuntojen

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suunnan ostajilla on kaikkein tukalinta, s

rakentamista sinne, missä on kysyntää



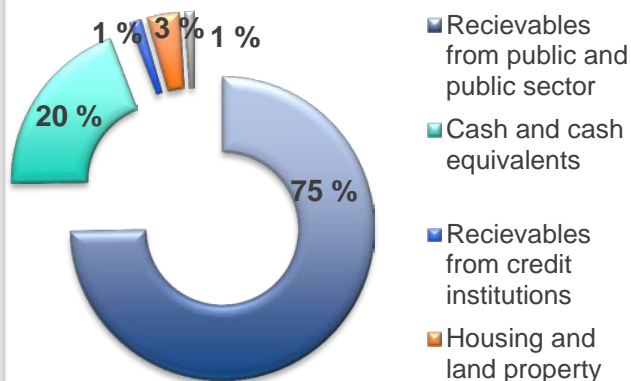
# Financial Results 3Q2015

# Hypo Group Balance Sheet

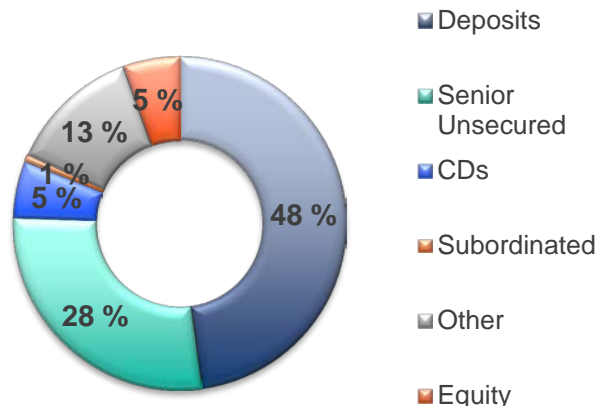
## EUR 1.8 billion as of 30.9.2015



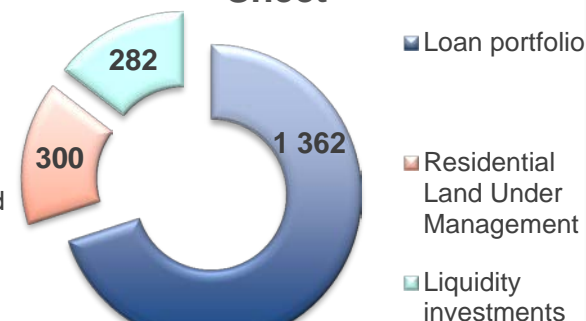
**Total Assets**



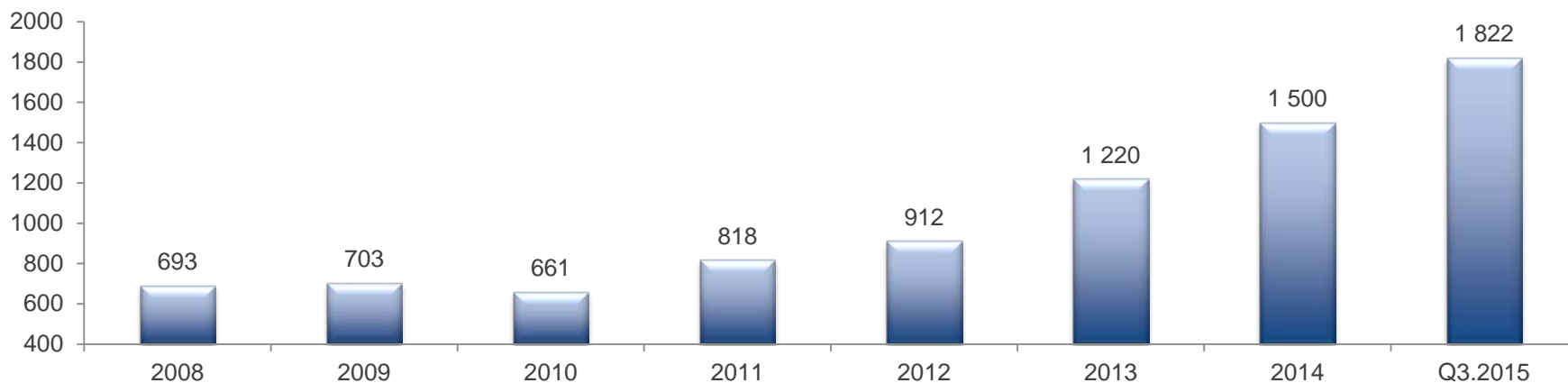
**Liabilities and Equity**



**Profit Generating Assets (m€), On and Off Balance Sheet**



**Hypo Group Balance Sheet Total 2008-3Q2015**



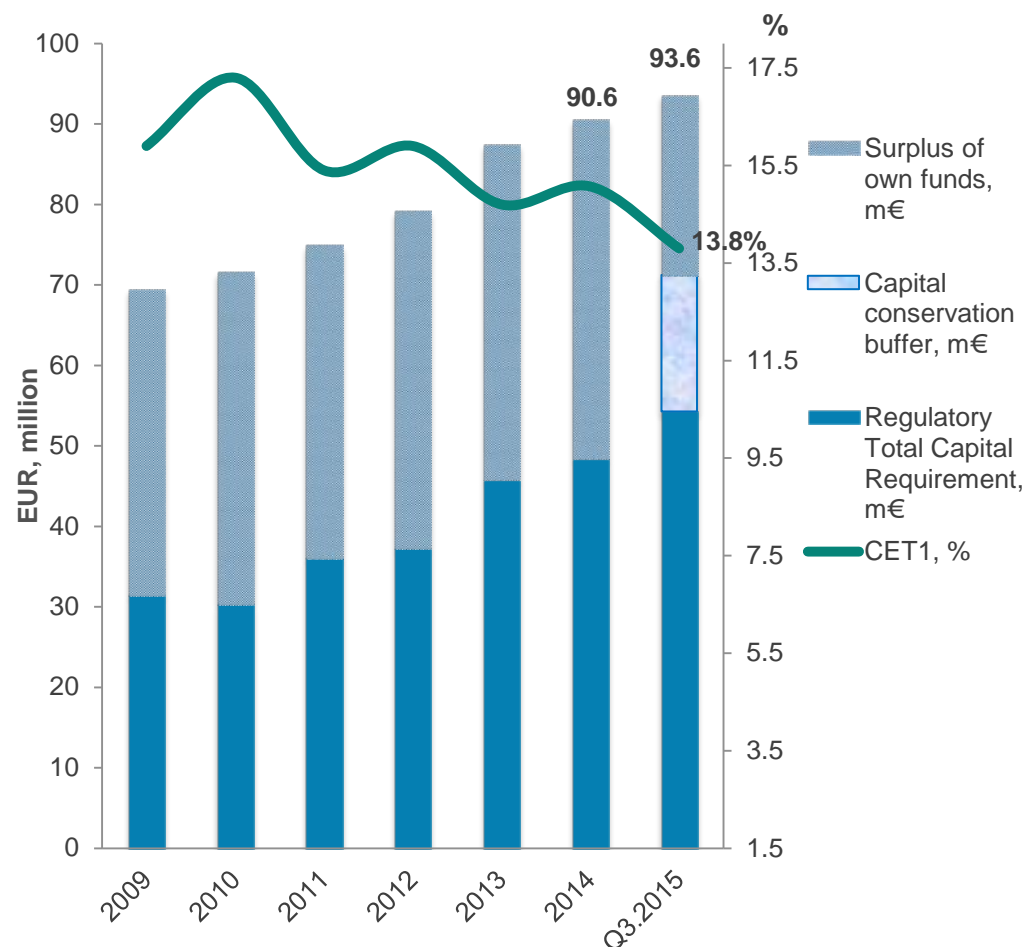
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# Solid Capital - Reporting Under the Standardised Method



- Common Equity Tier 1 at 13.8%
- Mutual company: all profits retained and added to the core capital
- S&P Risk Adjusted Capital ratio 20.5% as of 30.6.2015
  - Significantly higher than Nordic peers applying internal methods
- EUR 22.4 million of excess capital after
  - Regulatory TC requirement 8.0%
  - Capital Conservation Buffer 2.5%
- EUR 9.5 million of hidden reserves in housing property (not marked-to-market) and EUR 7.2 million of surplus in Pension Fund
  - Inclusion into CET1 would raise the ratio to 15.6-15.8%
- Basel III standard approach risk weights
  - Lending with Residential collateral: 35% risk weight
  - Housing units and land owned: 100% risk weight

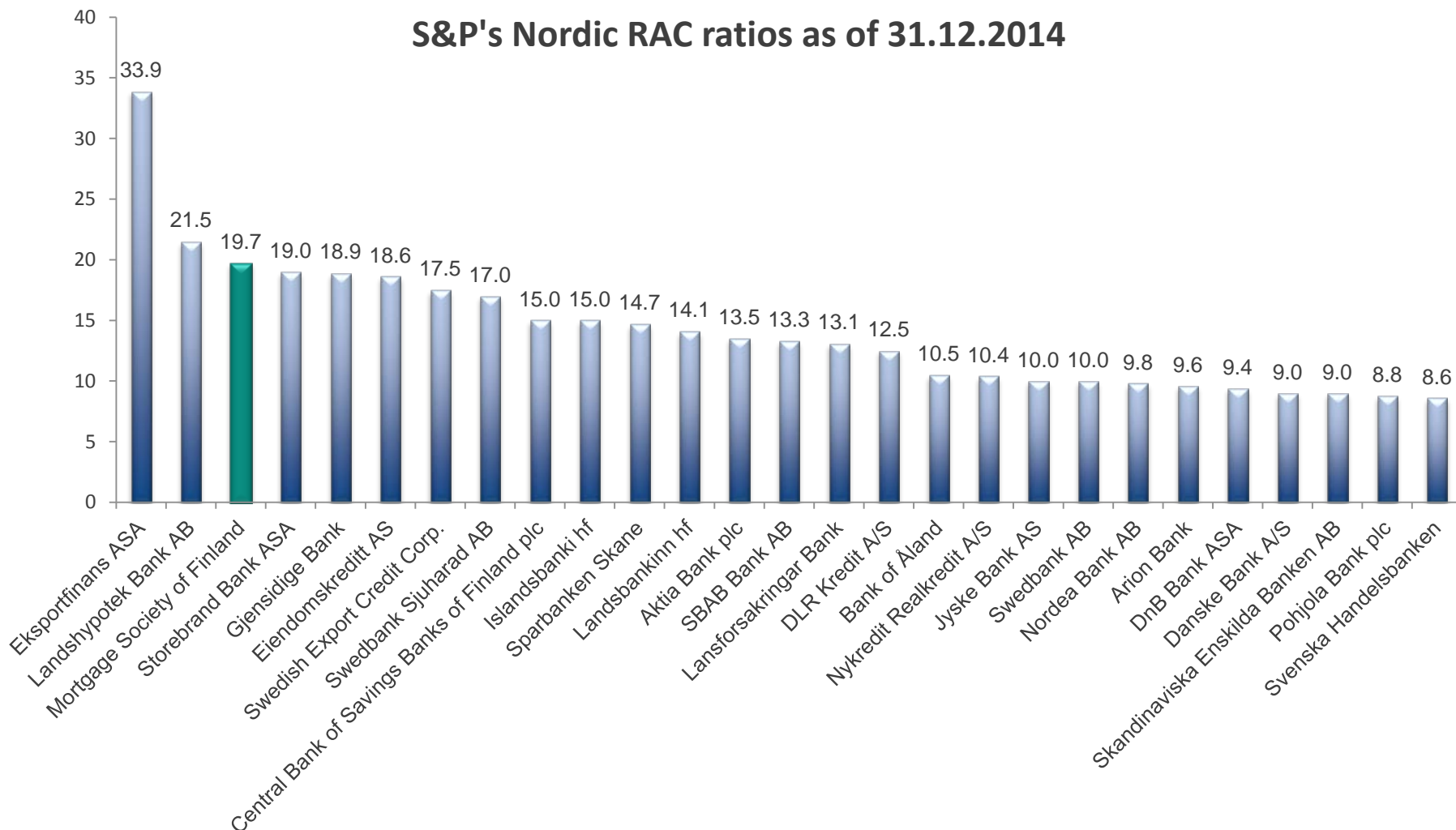
Capital Ratios 2009-3Q2015



# Hypo's S&P Risk Adjusted Capital 'very strong' at 20.5% as of 30.6.15



S&P's Nordic RAC ratios as of 31.12.2014



# Group Income Statement 1-3Q2015



(1000 €)	1-9/2015	1-9/2014	2014
<b>Net interest income</b>	3 613	4 799	6 427
<b>Net fee and commission income</b>	2 580	2 529	3 610
<b>Total other income</b>	5 870	5 167	7 219
<b>Total expenses</b>	-6 310	-6 580	-9 759
<b>Operating profit</b>	5 753	5 914	7 498

- Hypo Group's operating profit for 1-3Q2015 remained stable at EUR 5.8 million (EUR 5.9 million 1-3Q2014).
- NII decreased to EUR 3.6 million (4.8 million) due to low interest rate environment
- Net fee and commission income for the period was stable at EUR 2.6 million (2.5 million).
- Total other income (incl. Treasury operations and investments in housing and residential land) increased to EUR 5.9 million (5.2 million)
- Total operating expenses decreased to EUR 6.3 million (6.6 million)

# Group Key Financial Figures



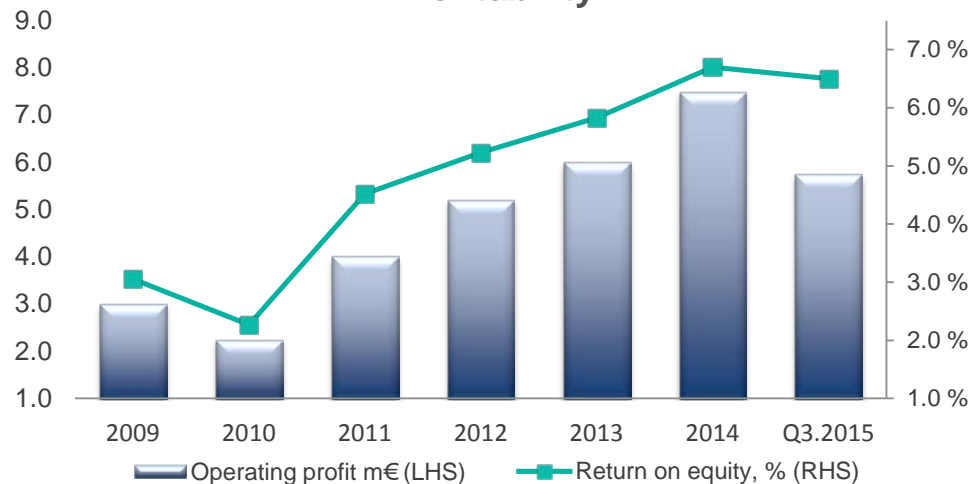
	1-9/2015	1-9/2014	2014
<b>Common Equity Tier 1 ratio (%)</b>	13.8	14.7	15.1
<b>Cost-to-income ratio (%)</b>	52.4	51.3	56.4
<b>Non-performing assets, % of the loan portfolio</b>	0.22	0.19	0.23
<b>Loan-to-value ratio (%)</b>	41.7	46.4	44.9
<b>Loans-to-deposits (%)</b>	156	279	237
<b>Loan portfolio total (m€)</b>	1 362	1 130	1 204
<b>Balance sheet total (m€)</b>	1 822	1 366	1 500

- Group total assets increased to EUR 1.8 billion (EUR 1.4 billion 1-3Q14)
- Loan portfolio increased to EUR 1.4 billion (1.1 billion 1-3Q14)
- Group's CET1 ratio slightly decreased to 13.8% (14.7% 1-3Q14)
- Average LTV lowered to 41.7% (46.4%)
- Group's financing position remained stable throughout the period

# Financial Performance - Stable Profitability Despite Lower Interest Rates

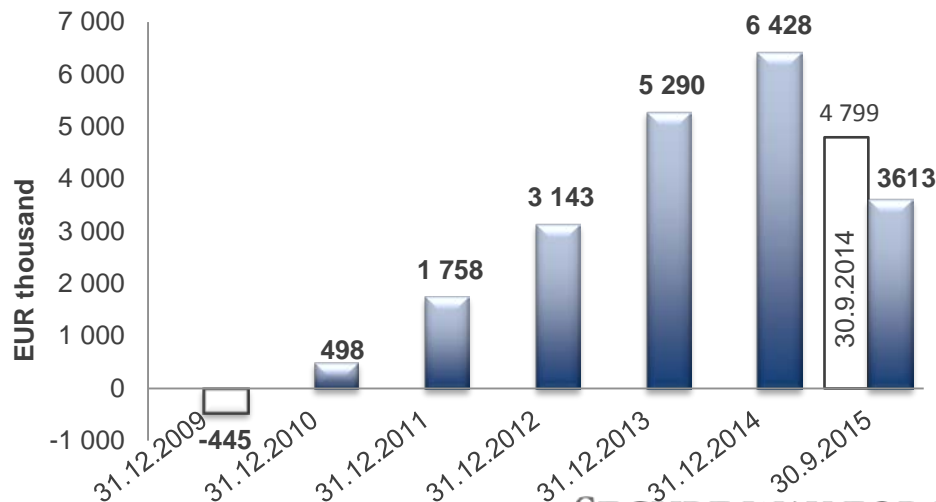


Profitability

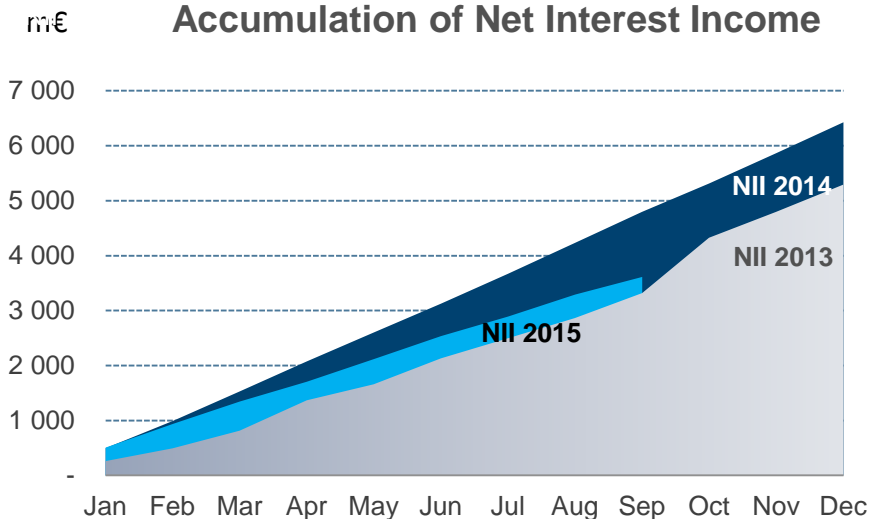


- Group's return-on-equity stood at 6.5% (6.7% ye2014)
- Operating profit for 1-3Q15 remained stable at EUR 5.8 million (5.9 million 1-3Q2014)
- Net interest income decreased 25% y-o-y to EUR 3.6 million (4.8 million) due to low interest rate environment and **significant strengthening of liquidity**
- Cost-to-income ratio was 52.4% (51.3%)

Net Interest Income 2009-3Q2015



Accumulation of Net Interest Income



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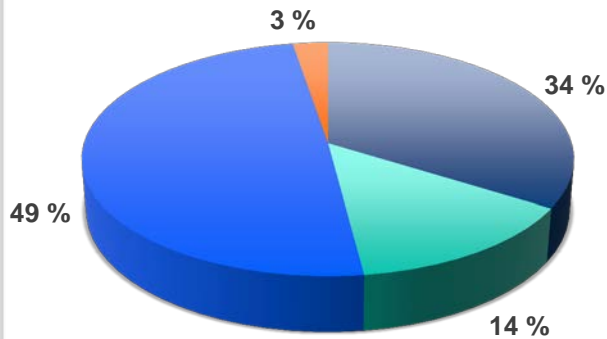
## Hypo's Loan Book

# Loan Book Overview



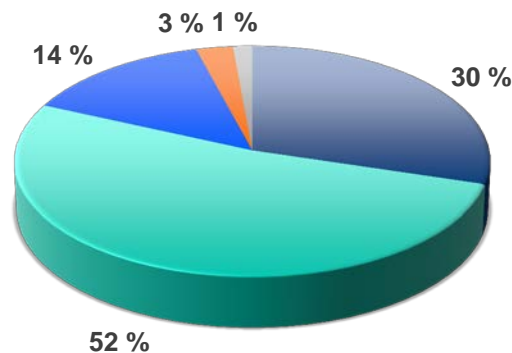
- Mortgage loans secured by residential property
- Collateral requirement is set in the Finnish Act on Mortgage Societies
- Two main customer groups
  - Private individuals and households: home mortgage, buy-to-let
  - Housing companies: renovation loans, construction phase loans

**Lending by Customer Type  
30.9.2015**



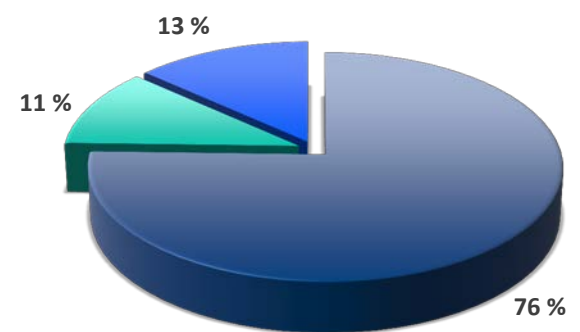
- Households
- Housing investors
- Housing companies
- Housing companies under construction

**Lending by Purpose of Use  
30.9.2015**



- Housing loans
- Housing companies
- Housing investors
- Reverse loans
- Consumer loan w/ residential collateral

**Loan Book by Customer Domicile  
30.9.2015**



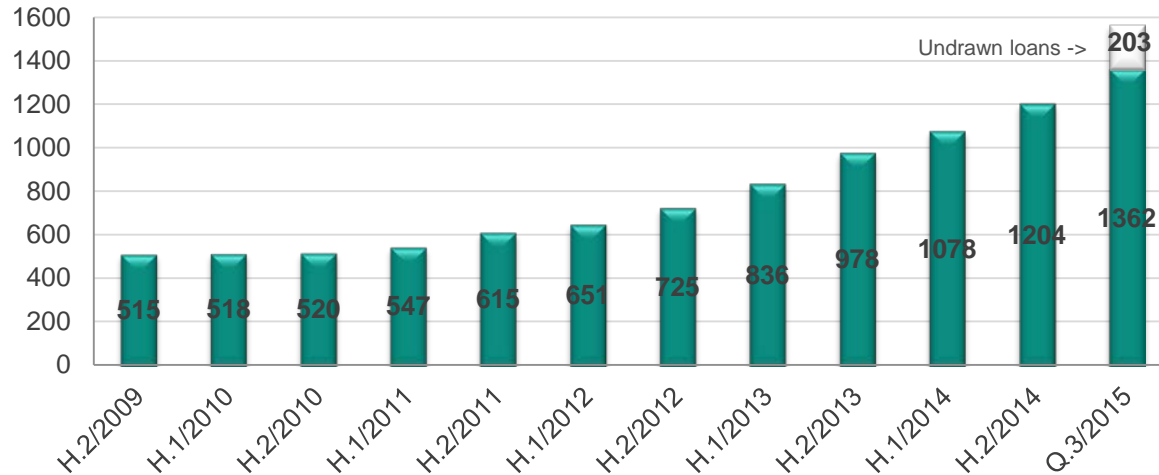
- Helsinki Metropolitan Area (Helsinki, Espoo, Vantaa, Kauniainen)
- Other growth areas
- Other areas (incl. Rest of Uusimaa)

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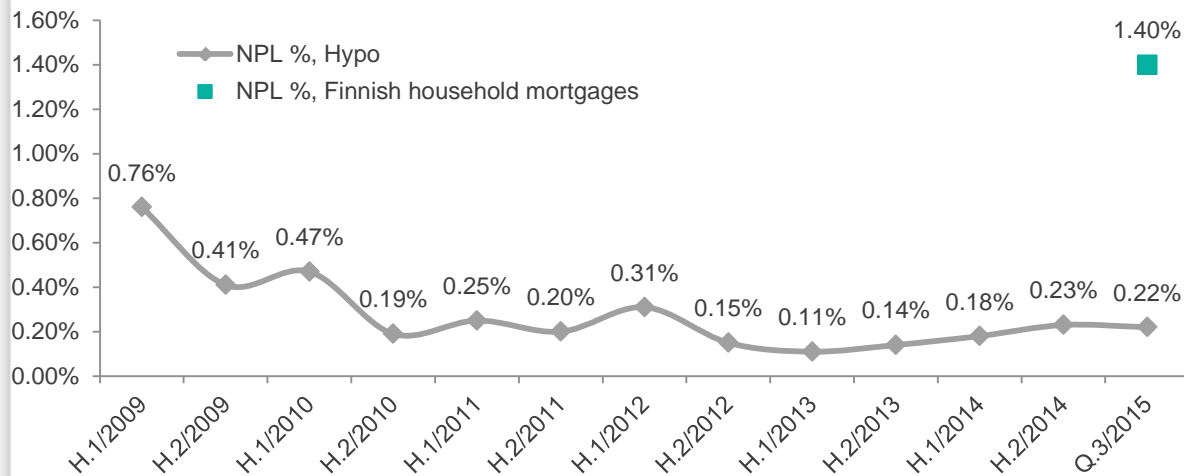
# Hypo Loan Book Growing Steadily



Hypo Loan Book Total, m€



Non-performing Loans, %



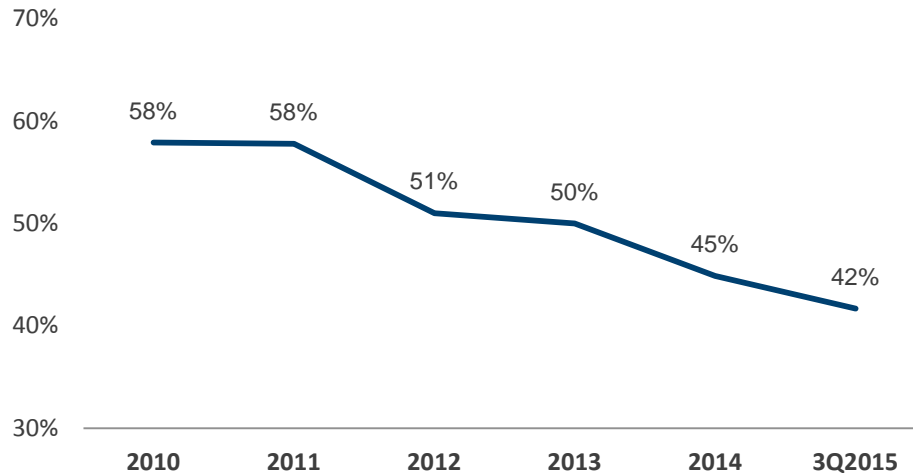
- Hypo's loan book increased 13% during 1-3Q2015 reaching EUR 1.36 billion (1.2 billion ye2014)
- EUR 203 million of undrawn loans
- All lending against residential collateral
- Only EUR denominated lending
- Collateral must be located in Finland
- Strategic concentration in the Helsinki Metropolitan Area and other specified growth areas
- The amount of non-performing loans remain at very low level at 0.22% of the total loans
- The quality of the loan book well above the Finnish household mortgage average NPLs (1.4% 1Q2015)

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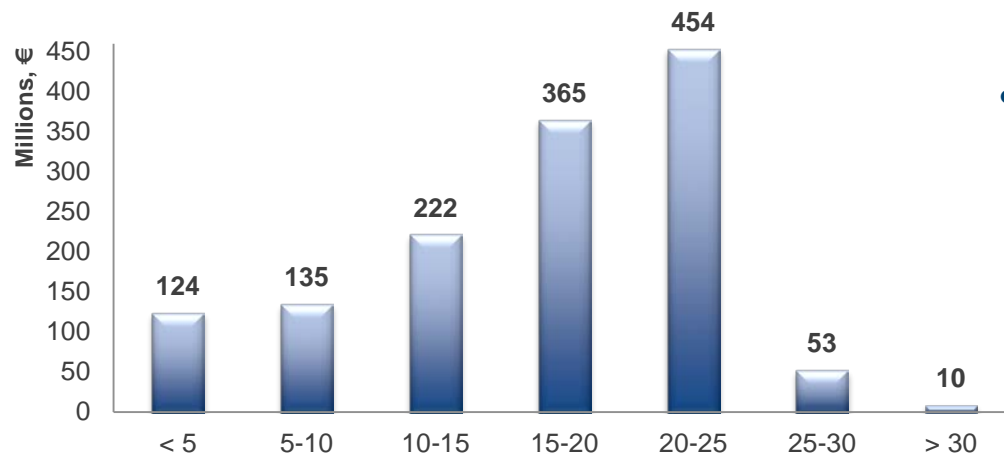
# Loan Book Quality Excellent



## Hypo Loan Book Average LTV



## Loan Book by remaining maturity (years) as at 30.9.2015



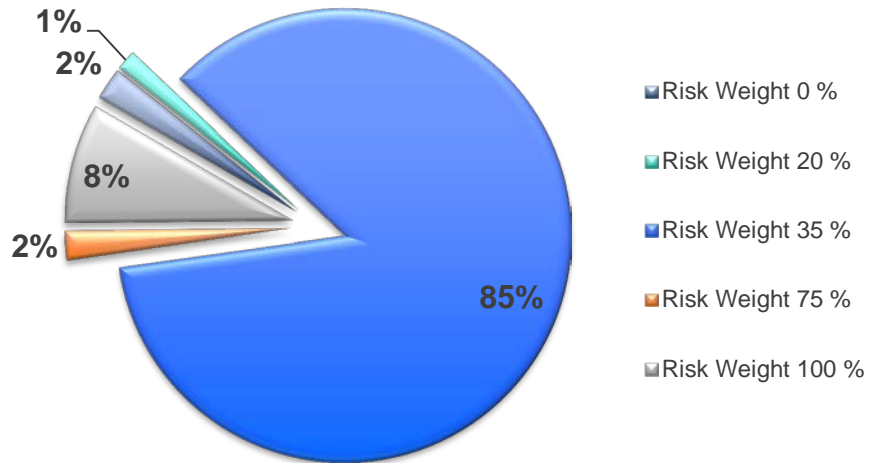
- Hypo's loan portfolio is entirely secured by residential property
- The average LTV (loan-to-value) further improved to 41.7% (45% year end 2014)
- The average maturity of a loan at the time of withdrawal is 16 years
- Financed properties mainly located in the population dense Helsinki Metropolitan Area.
- Low LTV combined with conservative collateral valuation makes Hypo's loan book very strong even in times of stress

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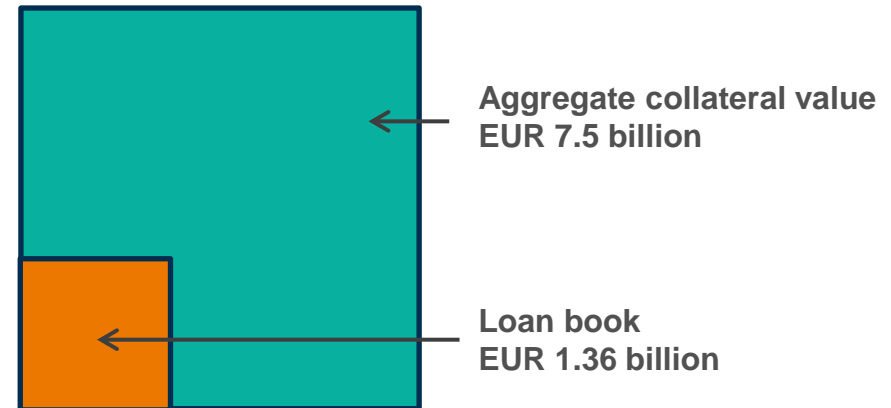
# Lending – Collateral Characteristics



**RWA by Collateral Risk Weight  
30.9.2015**



**Loan Book vs.  
Residential Property Collateral  
as of 31.12.2014**





## Funding and Liquidity

# "Put Us in the Middle"

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



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

## Hypo's outstanding issues as of 30.9.2015 (original amount issued)

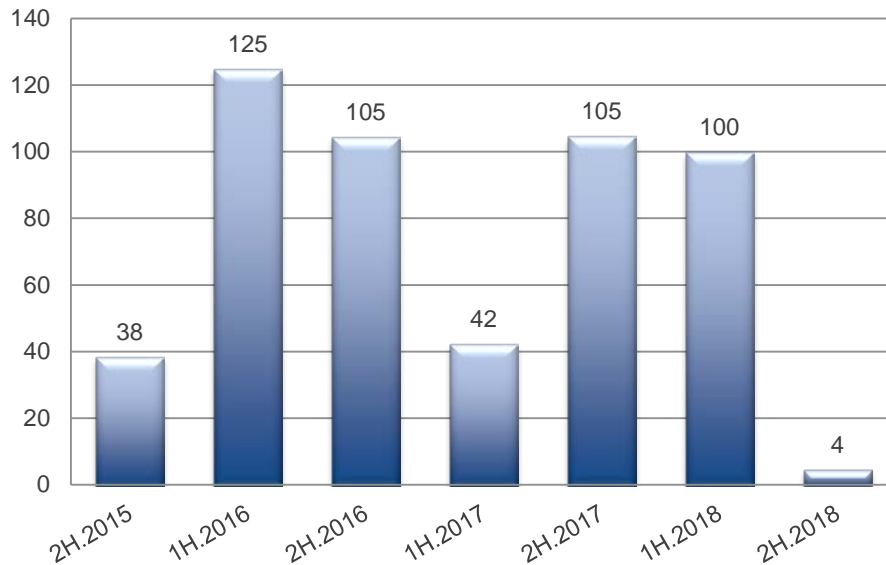
ISIN	Issue Date	Maturity Date	Type	Nominal (m€)	Coupon
FI4000047246	7.9.2012	7.3.2016	Senior Unsecured	50	FRN 6M +1,20
FI4000060322	14.2.2013	14.2.2017	Senior Unsecured	40	FRN 6M +1,10
FI4000064191	23.5.2013	23.5.2016	Senior Unsecured	(SEK) 250	FRN 3M (STIBOR) +1,38
FI4000064183	23.5.2013	23.5.2016	Senior 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

# Diversified Funding Profile

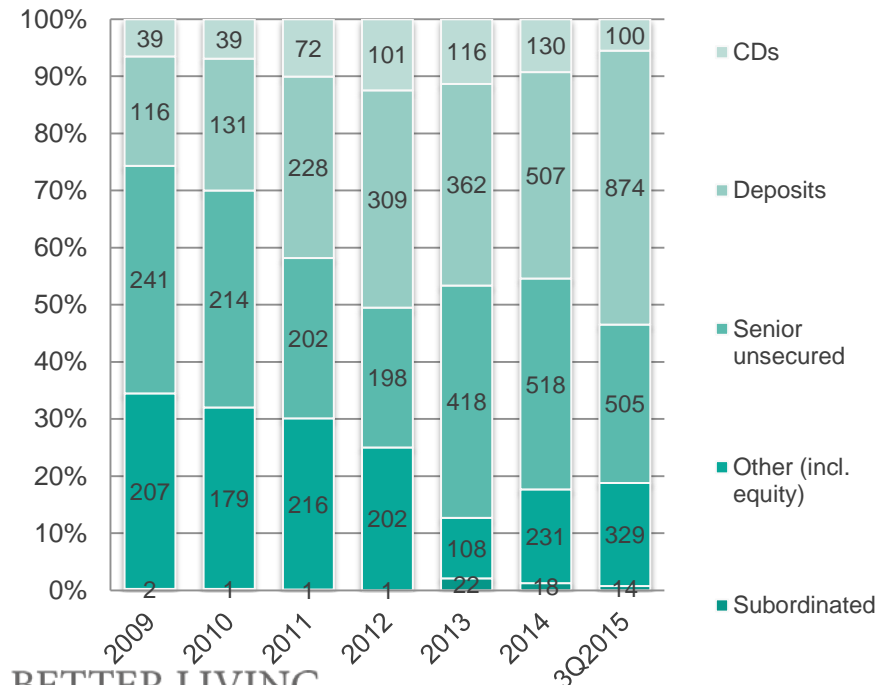


- Senior unsecured under our own legal framework
  - Borrower is the Group Parent
  - Effectively, since lending is against residential collateral, a “cover pool” exists
- Solid strategy, solid financial performance
  - IFRS, transparent and timely financial Information
- Deposit funding through the AsuntoHypoPankki subsidiary, 52% of total funding

**Senior Unsecured and Subordinated Debt maturity Profile as of 30.9.2015**



**Funding Structure 2009-3Q2015, m€**



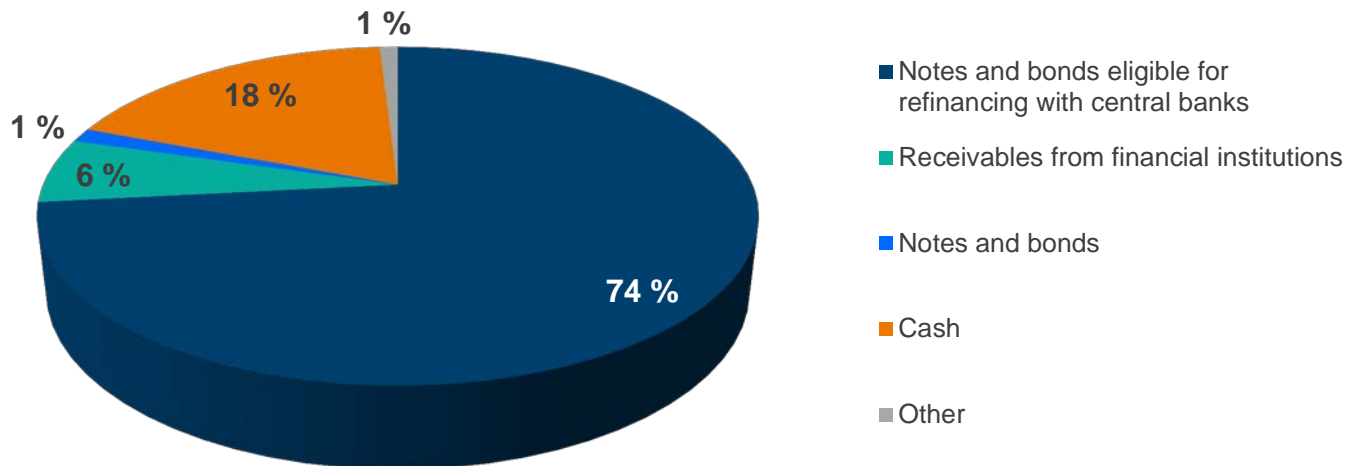
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# Solid Liquidity Position



- **Liquidity portfolio EUR 381 million as of 30.9.2015**
  - Conservative investment policy
  - 60% 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
  - Liquidity covers maturing wholesale funding for the following 14 months

**Liquidity portfolio as of 30.9.2015**



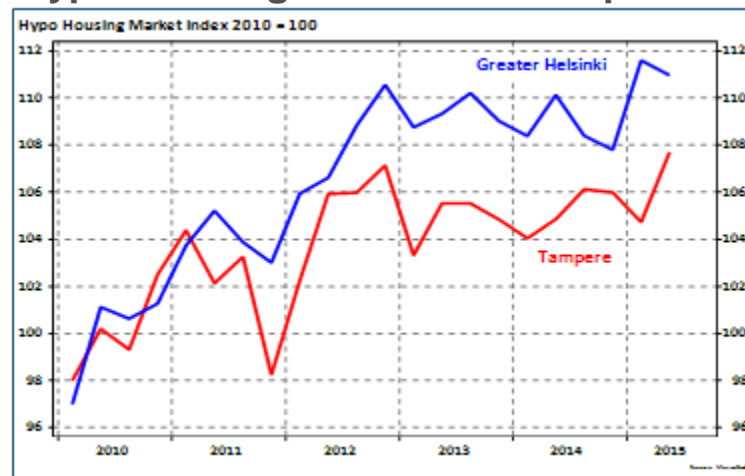
## Hypo Housing Market Index and Outlook for 2015

# Finnish Economy and Housing Market Outlook Cautious

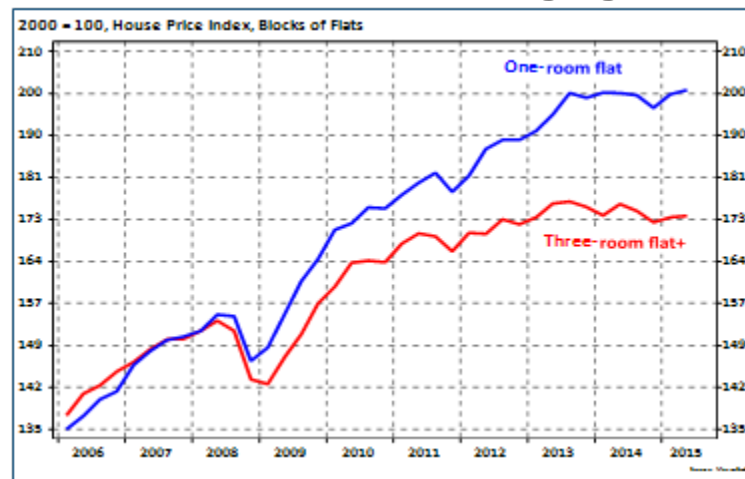


- **Hypo Housing Market Index** combines house prices and transaction volumes.
- Greater Helsinki and Tampere index turned up in 1H2015.
- In general, Finnish housing market has surprised with stability and demand has actually increased in 1H2015 - transaction volumes were up 10% y/y.
- Low interest rates and pent-up demand supports housing market activity.
- Newbuilding still stagnant.
- Prices in smaller apartments have diverged from the rest of the market. Mini-bubble doesn't solve itself quickly due to constraints and amount of new construction relative to the need.
- Prices are set to decline -0.8% in 2015 and lag price and wage development also in 2016. Volume continues to increase slowly.

## Hypo Housing Market Index improves



## Prices in smaller flats diverging



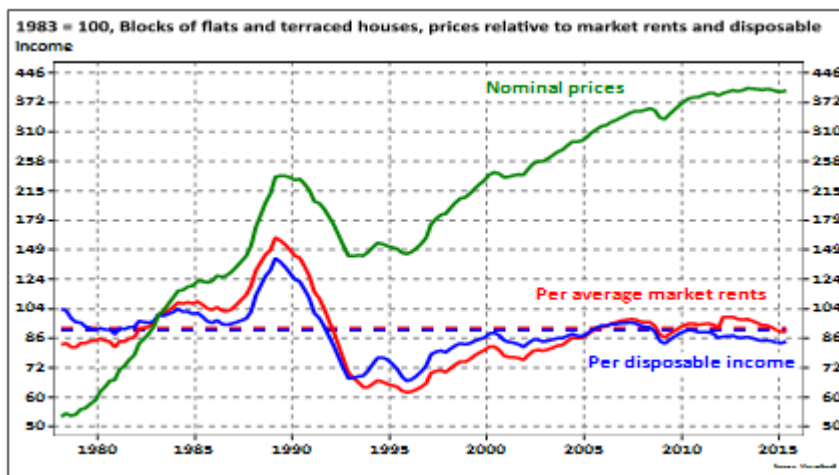
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# Finnish Economy and Housing Market Outlook Cautious



- Recent data and leading indicators point to a steady growth in the Euro Area.
- The 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 nonexistent in 2015.
- Housing market reliant on wider economy. Unemployment remains elevated and disposable income decreases → prices will decline slightly in 2015, but volumes finally increase.
- Urbanization continues and shifts demand towards only a few growth centers, namely to Helsinki Metropolitan Area and Tampere Region.
- Lending times likely to increase as amortization schedules are eased.
- Meager newbuilding and low interest rates expected to continue in 2016.

## House prices in a mild decline, no bubble



## Labor Market conditions have improved



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

*“In uncertain times customers value the expertise of a specialist organization. Low risk weighted loan portfolio continues growing faster than the market while liquidity is significantly strengthened. Group's balance sheet is approaching the level of EUR 2.0 billion, and the operating profit will reach 2014 level unless there will be significant negative changes in the market.”*



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