

# Hypo Credit Update 1-4Q2015

Investor Presentation, February 2016



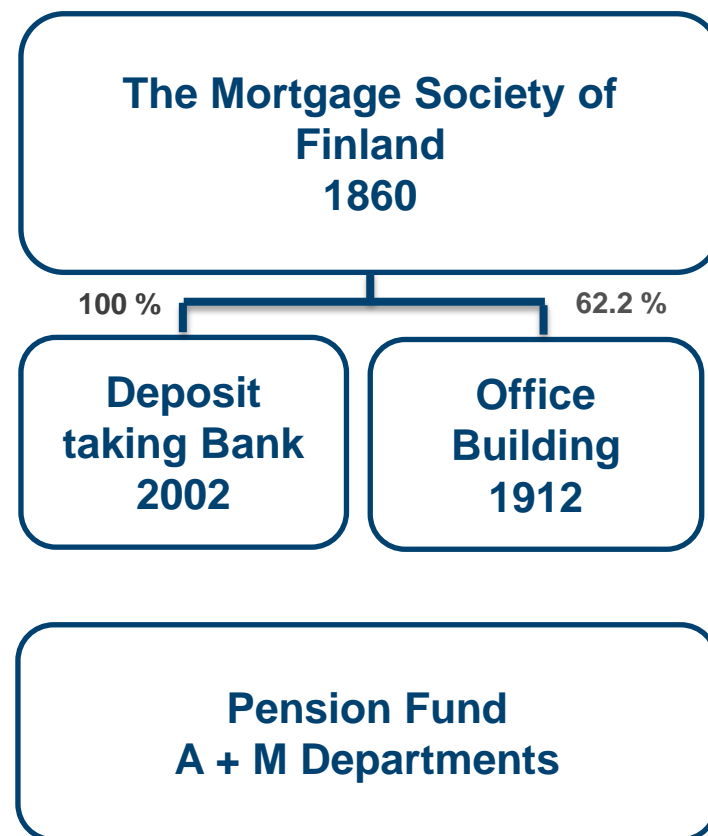


**Secure Way for Better Living**

# Hypo Group Overview



- Founded in 1860
  - The oldest private credit institution in Finland
- Retail banking, no corporate lending
- Supervised by the FIN-FSA
- Specialized 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 0.16%)
- Well-known and frequent borrower in Finland
- Total assets EUR 1.96 billion
- S&P rating 'BBB/A-3'
  - The outlook is negative, reflecting S&P's view of the weak economic recovery in Finnish economy.





# Hypo is the Leading Debater on Finnish Mortgage Market

## Hypon Pauna: ASP remontoitava

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

**ASP-säästäminen**  
ASP-säästötiliin voi avata 18-30-vuotiaat henkilöt, jotka eivät aikoo myydä asuntonsa 50 prosenttia tai enemmän asunnosta. Myös asuupaikasta voi ryhtyä yhdessä ASP-säästökseen.

Tämä on herättänyt asiakkaita ASP-asioiden osalta, jotka suostuvat kahden viime vuoden aikana reppaasi. "Niin harvinaista, ettei järkevästi ole ajateltu. Sillä olisi monin kertaan korjattava".



## "Ei kaikkia munia asuntokoriin"

ASUMINEN - Jos perintönä on pelkkä vanha, arvonsa menettänyt lapsuudenkoti, voi olla, että perillisille ei ole vaihtoehtoja. Asuntokoriin ei kuulu, n toimitusjohtaja Ari Pauna.



HS

Talouselämä

10.10.2013

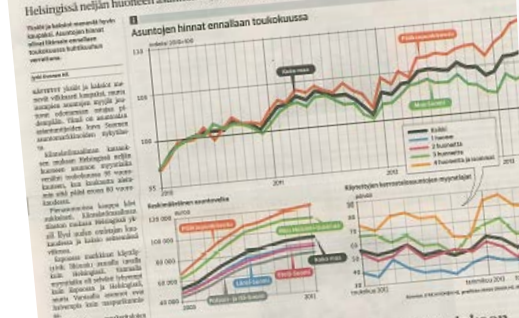
1 euro = 1,326 dollar

0,37

- 0,76

## TALOUS

### Pikkuasuntojen kauppa käy



**Asuntovarallisuuden uuteen jakoon**  
Asuntovarallisuuden uuteen jakoon on tullut uusia voimavaroja. Ennen varainhoitoon otettiin mukaan vain kassa, mutta nyt mukaan on tullut myös asuntokorin ja asuntokorin osuudet. Asuntokorin osuudet ovat nyt 10 prosenttia, kun ennen ne olivat 5 prosenttia. Asuntokorin osuudet ovat nyt 10 prosenttia, kun ennen ne olivat 5 prosenttia. Asuntokorin osuudet ovat nyt 10 prosenttia, kun ennen ne olivat 5 prosenttia.

## Asuntovarallisuuden isojako kiihtyy

Asuntokaupan hulluja vuosia on seurannut krapula. Harvoja hyötyjiä ovat pariutuvat sinkut.



**Teksti: Taina Viikola**  
Asuntojen myynti on hidastunut merkittävästi. Ennen varainhoitoon otettiin mukaan vain kassa, mutta nyt mukaan on tullut myös asuntokorin ja asuntokorin osuudet. Asuntokorin osuudet ovat nyt 10 prosenttia, kun ennen ne olivat 5 prosenttia. Asuntokorin osuudet ovat nyt 10 prosenttia, kun ennen ne olivat 5 prosenttia.

## Asiantuntija: Suomi jakautumassa kahteen kastiin asuntomarkkinoilla

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



**Parempaan asumiseen turvallisesti**  
Hypoteekkiyhdistys on kehittänyt asuntomarkkinoilla uusia palveluita. Asuntokorin osuudet ovat nyt 10 prosenttia, kun ennen ne olivat 5 prosenttia. Asuntokorin osuudet ovat nyt 10 prosenttia, kun ennen ne olivat 5 prosenttia.



# Financial Results

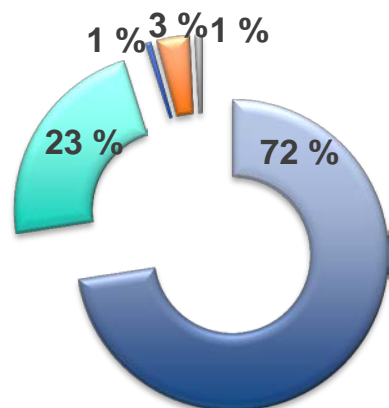


# Hypo Group Balance Sheet

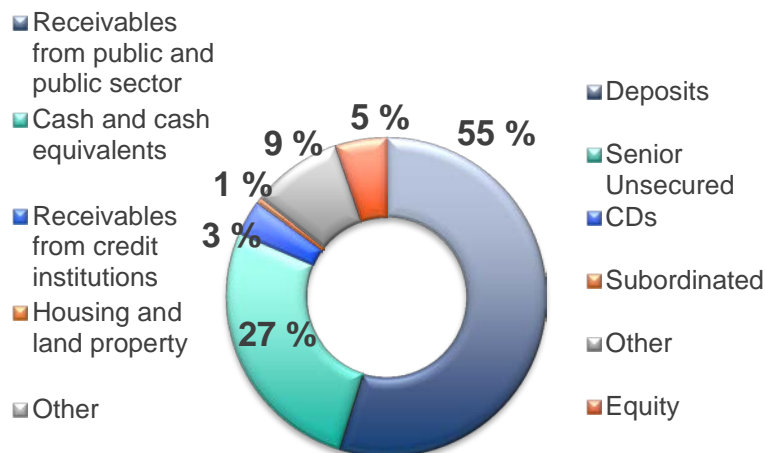
## EUR 1.96 billion as of 31.12.2015



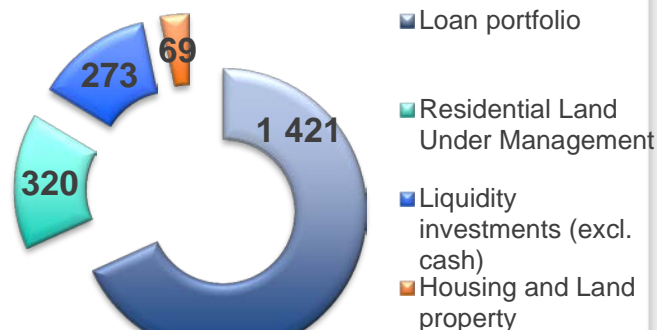
**Total Assets**



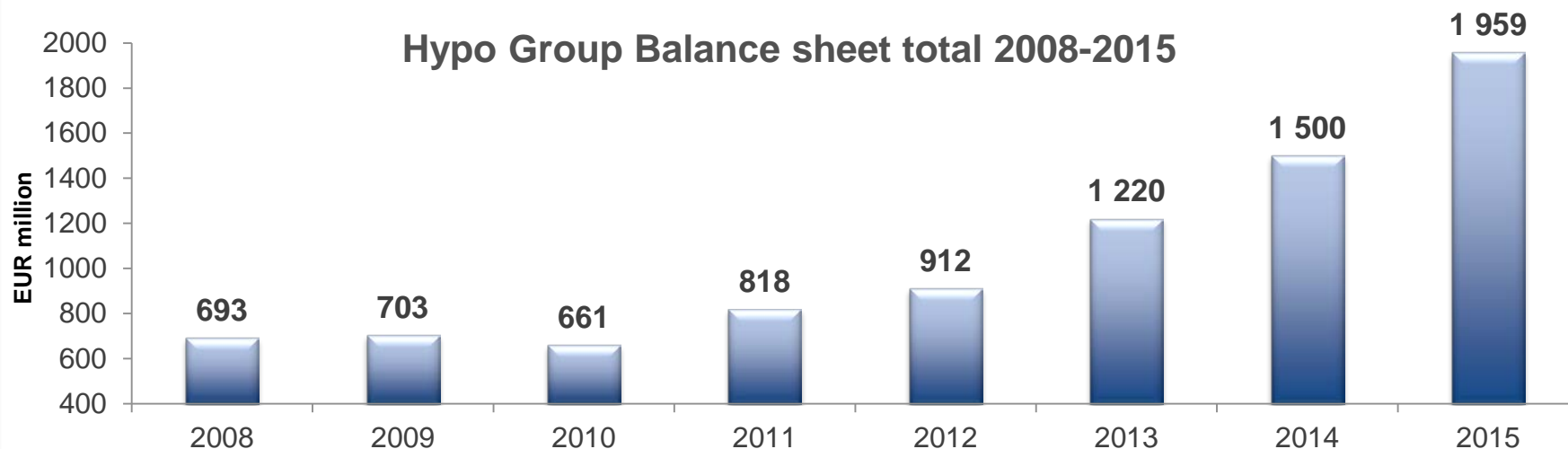
**Liabilities and Equity**



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



**Hypo Group Balance sheet total 2008-2015**



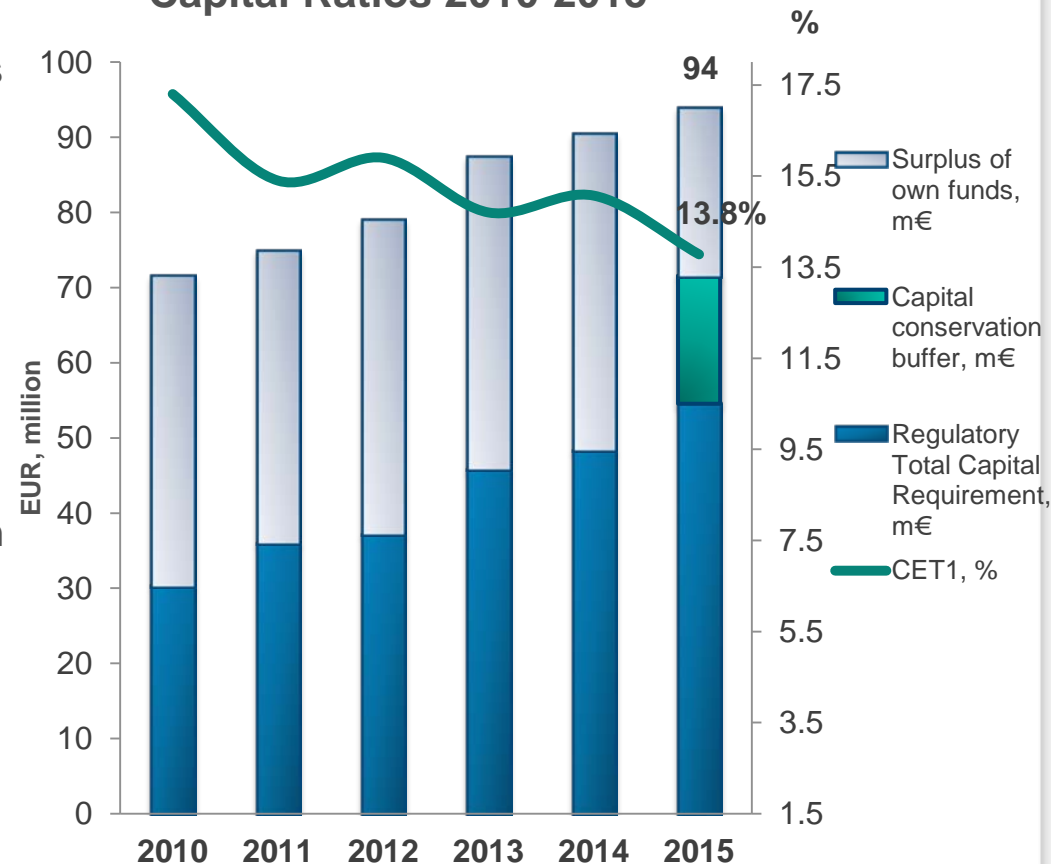
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# Solid Capital - Reporting Under Basel III Standardized Approach



- 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% + 2.5% Capital Conservation Buffer
- EUR 8.8 million of hidden reserves in housing property (not marked-to-market) and EUR 7.7 million of surplus in Pension Fund
  - Inclusion into CET1 would raise the ratio to 15.5%
- Basel III standard approach risk weights
  - Lending with Residential collateral: 35% risk weight
  - Housing and land investments: 100% risk weight

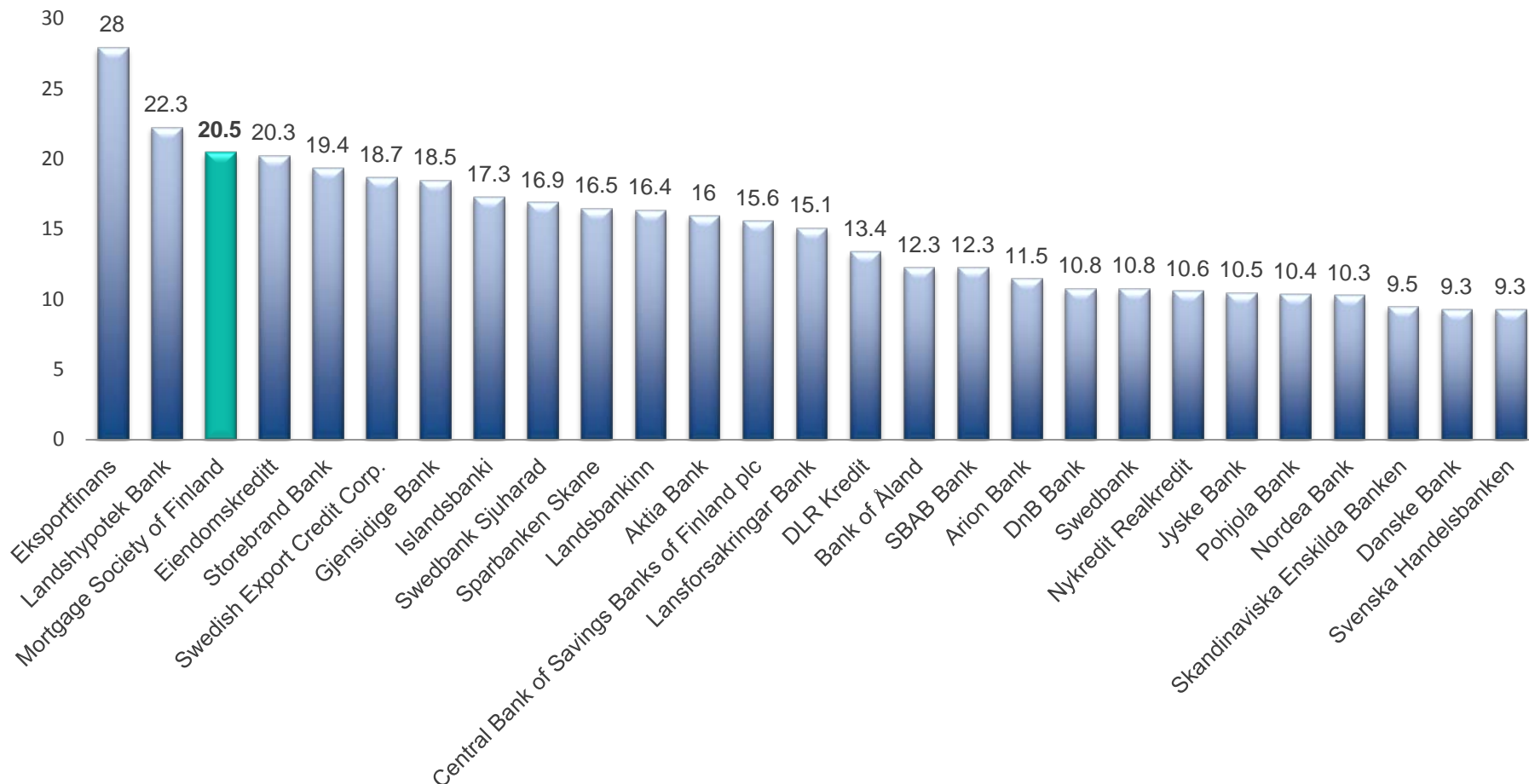
Capital Ratios 2010-2015



# Hypo's S&P Risk Adjusted Capital 'very strong' at 20.5% as of 30.6.2015



S&P's Nordic RAC ratios as of 30.6.2015





# Group Income Statement 2015



(1000 €)	2015	2014
<b>Net interest income</b>	4 574	6 427
<b>Net fee and commission income</b>	3 416	3 610
<b>Total other income</b>	8 681	7 219
<b>Total expenses</b>	- 9 149	-9 759
<b>Operating profit</b>	<b>7 523</b>	<b>7 498</b>

- Hypo Group's operating profit before tax for financial year 2015 remained stable at EUR 7.52 million (EUR 7.49 million 2014).
- NII decreased to EUR 4.57 million (6.4 million) due to low interest rate environment
- Net fee and commission income for the financial year was stable at EUR 3.4 million (3.6 million).
- Total other income (incl. Treasury operations and investments in housing and residential land) increased to EUR 8.7 million (7.2 million)
- Total expenses decreased to EUR 9.1 million (9.8 million) despite the new contribution payment to the national resolution fund (*vakausmaksu*)

# Group Key Financial Figures



	2015	2014
<b>Common Equity Tier 1 ratio (%)</b>	13.8	15.1
<b>Cost-to-income ratio (%)</b>	54.9	56.4
<b>Non-performing assets, % of the loan portfolio</b>	0.16	0.23
<b>Loan-to-value ratio (%)</b>	41.1	44.9
<b>Loans-to-deposits (%)</b>	137	237
<b>Loan portfolio total (m€)</b>	1 421	1 204
<b>Balance sheet total (m€)</b>	1 959	1 500

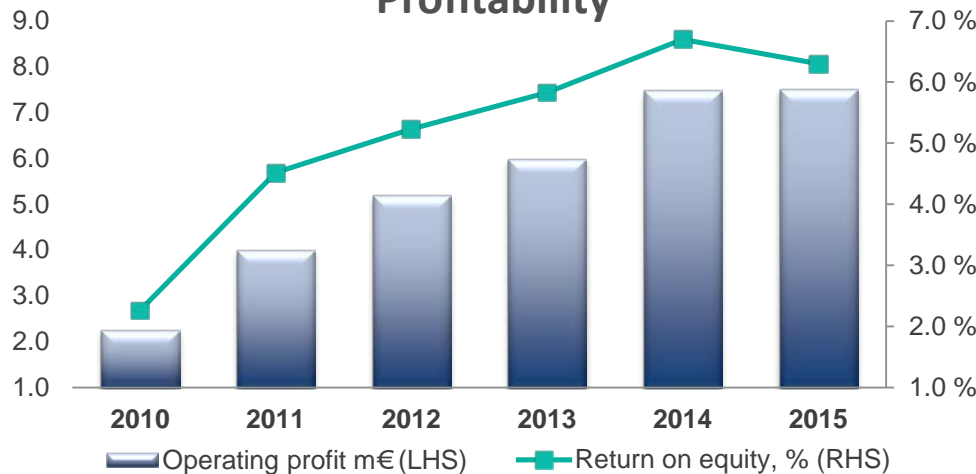
- Total assets increased to EUR 1.96 billion (EUR 1.5 billion 2014)
- Loan portfolio increased to EUR 1.42 billion (1.2 billion 2014)
- CET1 ratio decreased to 13.8% (15.1% 2014)
- Equity increased to EUR 101.5 million (EUR 95.4 million 2014).
- Average LTV strengthened to 41.1% (44.9%)
- Group's financial position remained stable throughout the period

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# Financial Performance - Stable Profitability Despite Lower Interest Rates

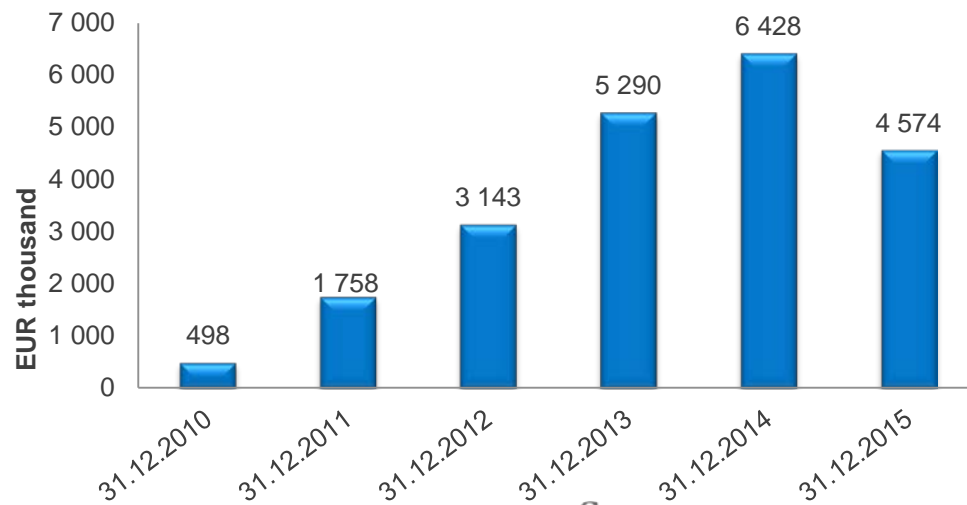


Profitability

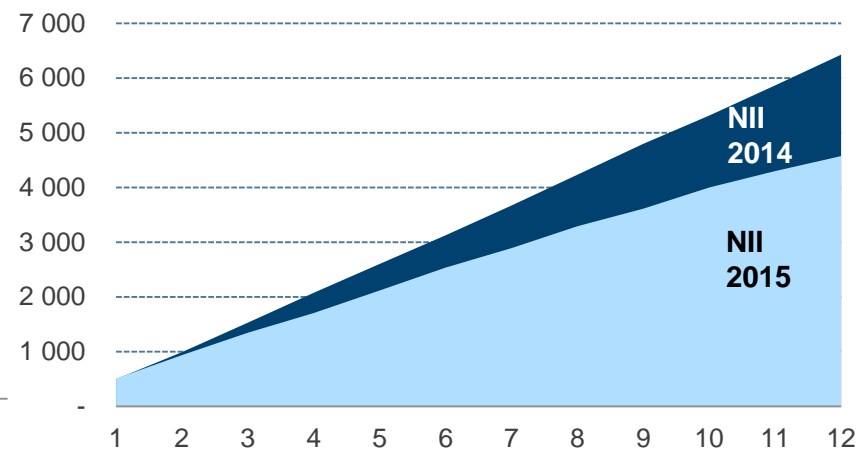


- Group's return-on-equity stood at 6.3% (6.7% 2014)
- Operating profit for 2015 remained stable at EUR 7.52 million (7.49 million 2014)
- Net interest income decreased 29% to EUR 4.6 million (6.4 million) due to low interest rate environment and **significant strengthening of liquidity**
- Cost-to-income ratio was 54.9% (56.4%)

Net Interest Income 2010-2015



m€ Accumulation of Net Interest Income



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## Hypo's Loan Book

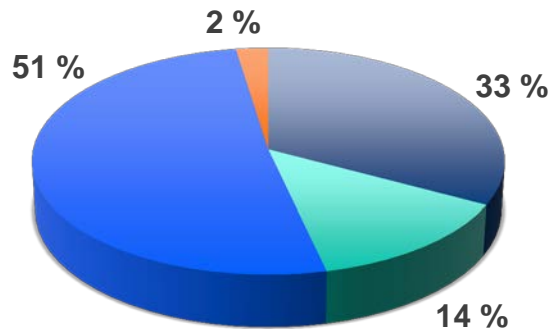


# Loan Book Overview



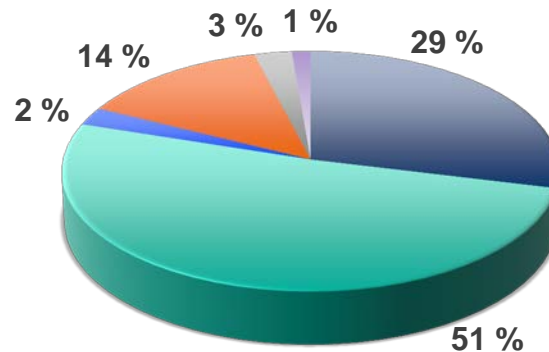
- Mortgage loans secured by residential property
- Collateral requirement is set in the Finnish Act on Mortgage Societies
- Two main customer groups
  - Private individuals and households: home mortgage, buy-to-let
  - Housing companies: renovation loans, construction phase loans

**Lending by Customer Type**



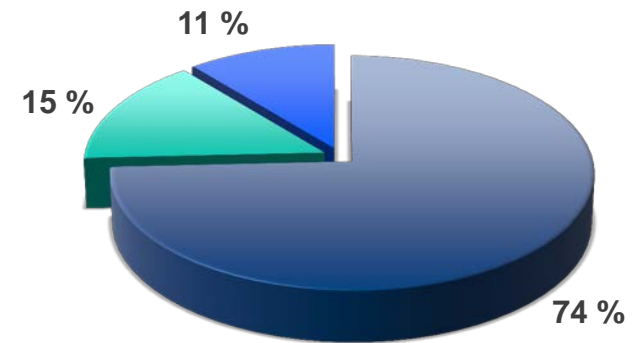
- Households
- Housing investors
- Housing companies

**Lending by Purpose of Use**



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

**Loan Book by Customer Domicile**



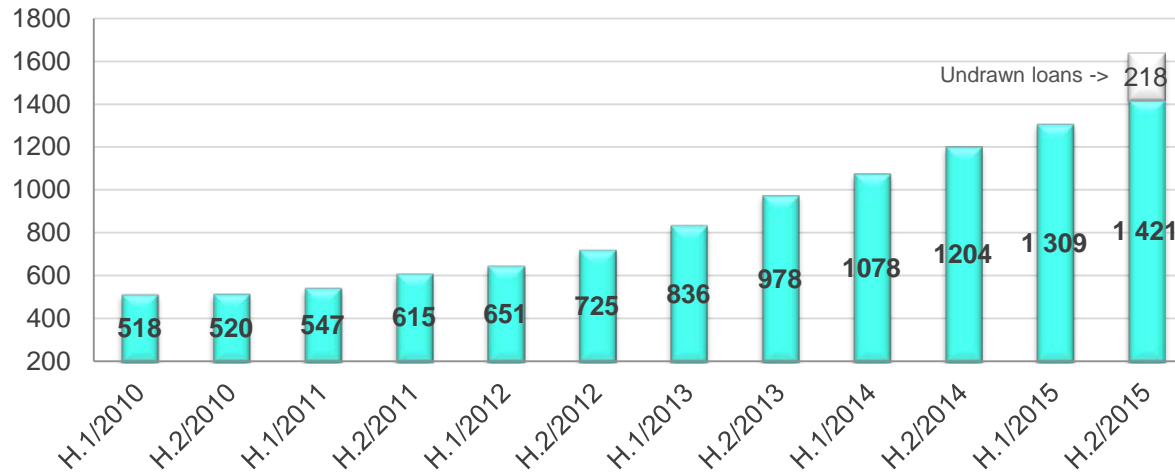
- Helsinki Metropolitan Area (Helsinki, Espoo, Vantaa, Kauniainen)
- Other growth areas
- Other areas (incl. Rest of Uusimaa)

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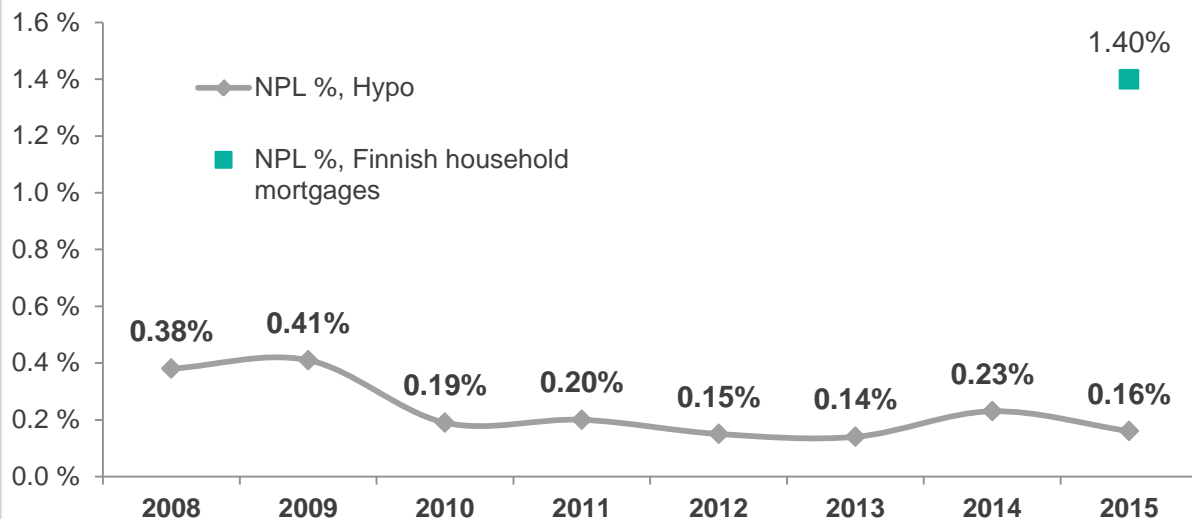
# Hypo Loan Book Growing Steadily



Hypo Loan Book Total, m€



Non-performing Loans (%)



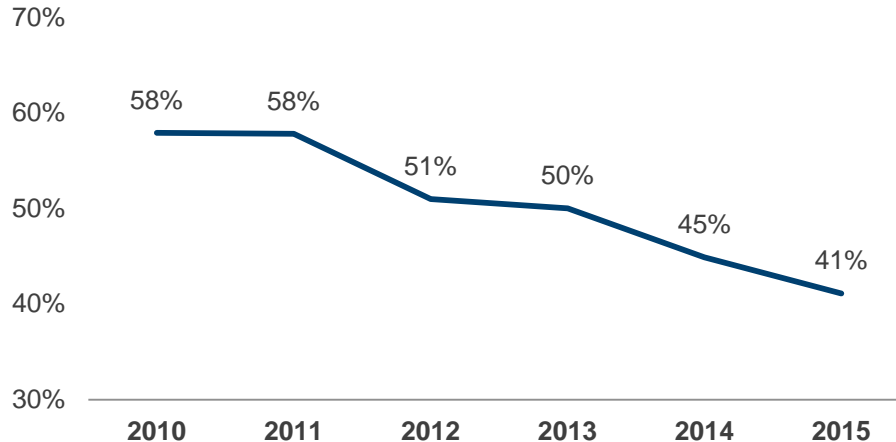
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- Hypo's loan book increased 18% during 2015, reaching EUR 1.42 billion (1.2 billion 2014)
- EUR 218 million of undrawn loans
- All lending against residential collateral
- Only EUR denominated lending
- All collateral located in Finland
- Strategic concentration in the Helsinki Metropolitan Area and other specified growth areas
- The amount of non-performing loans remain at very low level at 0.16% of the total loans
- The quality of the loan book well above the Finnish household mortgage average NPLs (1.4% 1Q2015)

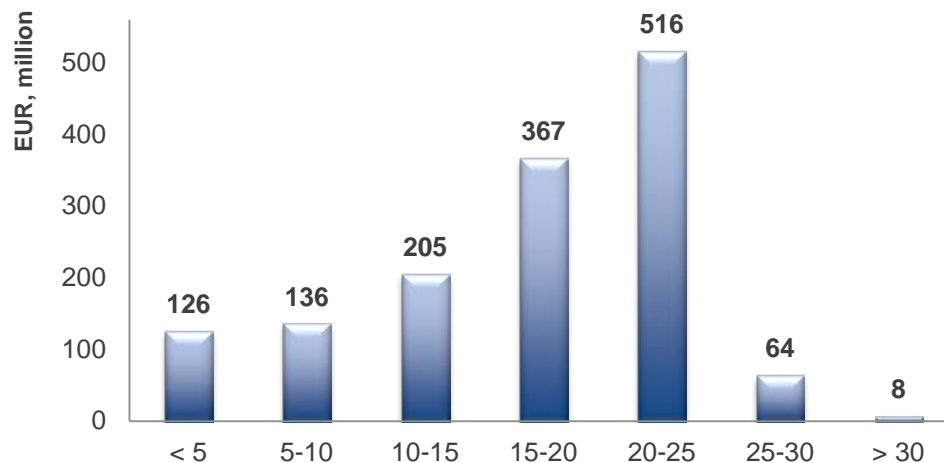
# Loan Book Quality Excellent



## Hypo Loan Book Average LTV



## Loan Book by Remaining Maturity (years) as of 31.12.2015



- Hypo's loan portfolio is entirely secured by residential property
- Almost 90% of loan book is 35% risk weighted
- The average LTV (loan-to-value) further improved to 41.1% (45% year end 2014)
- 93% of the loans are amortizing and 7% bullets
- 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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## Funding and Liquidity



# Funding Strategy



- Mortgage bank authorisation granted on Jan. 29, 2016
  - Issuer is the Group Parent, no separate entity
  - First issue anticipated during the first half of 2016
  - Aiming at LCR level 2A eligibility
- Senior unsecured issues continue
- All bonds
  - listed on the NASDAQ OMX Helsinki Oy trading list
  - Issued under Finnish legislation and Domestic programs
- Deposit funding through 100% subsidiary bank "Suomen AsuntoHypoPankki"
- Other funding sources
  - Commercial Deposit program
  - Bilateral loans
  - ECB repo counterparty

## Hypo's Outstanding Issues as of 31.12.2015 (original amount issued)

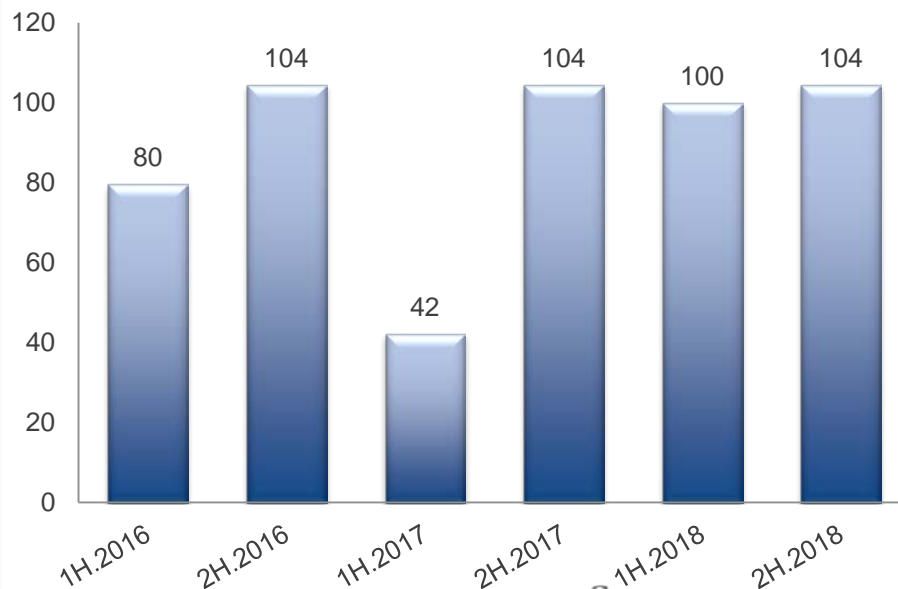
ISIN	Issue Date	Maturity Date	Type	Nominal Issued (m€)	Coupon
FI4000047246	7.9.2012	7.3.2016	Senior Unsecured	50	FRN 6M +120
FI4000060322	14.2.2013	14.2.2017	Senior Unsecured	40	FRN 6M +110
FI4000064191	23.5.2013	23.5.2016	Senior Unsecured	(SEK) 250	FRN 3M (STIBOR) +138
FI4000064183	23.5.2013	23.5.2016	Senior Unsecured	50	FRN 6M +95
FI4000076443	9.12.2013	9.12.2016	Senior Unsecured	100	FRN 6M +95
FI4000092598	29.4.2014	30.10.2017	Senior Unsecured	75	FRN 6M +100
FI4000092598 (tap)	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
FI4000123021 (tap )	16.1.2015	4.6.2018	Senior Unsecured	25	FRN 6M +95
FI4000186614	4.12.2015	4.12.2018	Senior Unsecured	100	FRN 6M +90

# Diversified Funding Profile

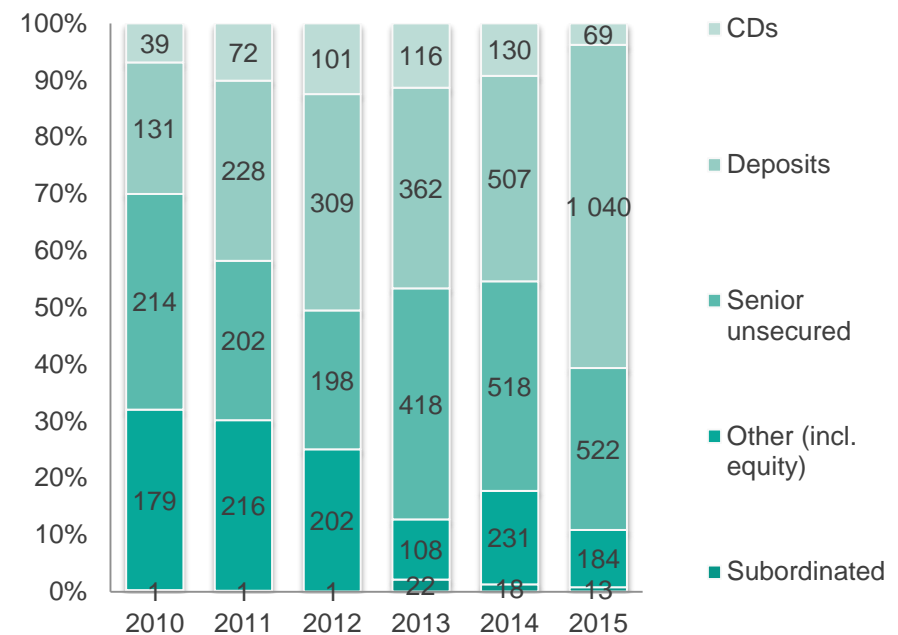


- Domestic Program for Senior Unsecured
- Covered Bonds will further diversify funding sources
- Solid strategy, solid financial performance
  - IFRS quarterly reporting, transparent and timely financial Information
- Deposit funding through the AsuntoHypoPankki subsidiary, 57% of total funding (31.12.2015)

**Outstanding Senior Unsecured and Subordinated Debt by Maturity  
31.12.2015**



**Funding Structure 2010-2015, m€**



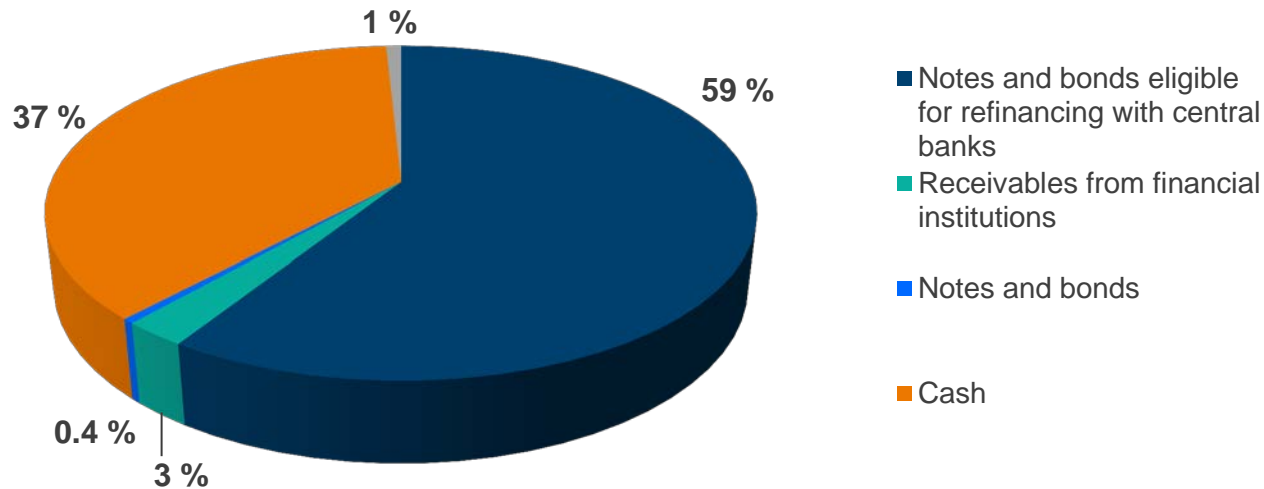
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# Solid Liquidity Position



- **Liquidity portfolio EUR 459 million as of 31.12.2015**
  - Conservative investment policy
  - 77% of debt securities invested in at least AA- rated counterparties
  - 99% of liquidity portfolio investments ECB repo eligible
  - Only EUR denominated exposure
  - Hypo's domestic MTN and CD programs support the liquidity
  - Liquidity covers maturing wholesale funding for the following 22 months

**Liquidity Portfolio as of 31.12.2015**



## Finnish Economy and Hypo's Outlook for 2016

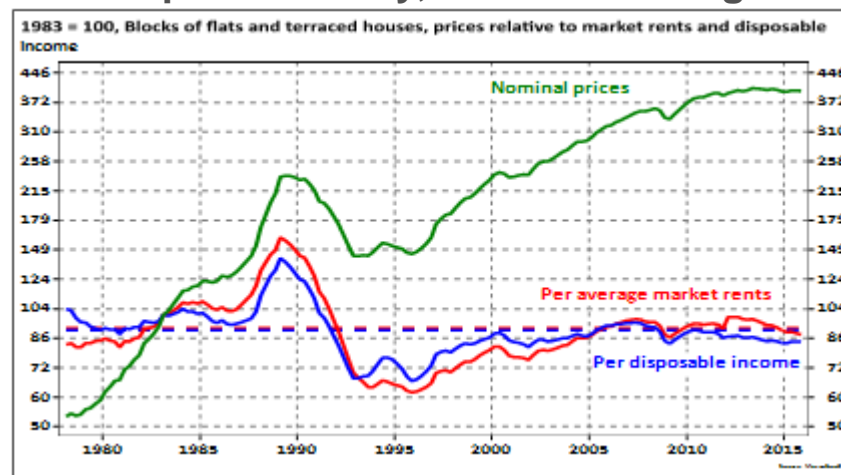


# Finnish Economy and Housing Market Outlook Improves Slowly

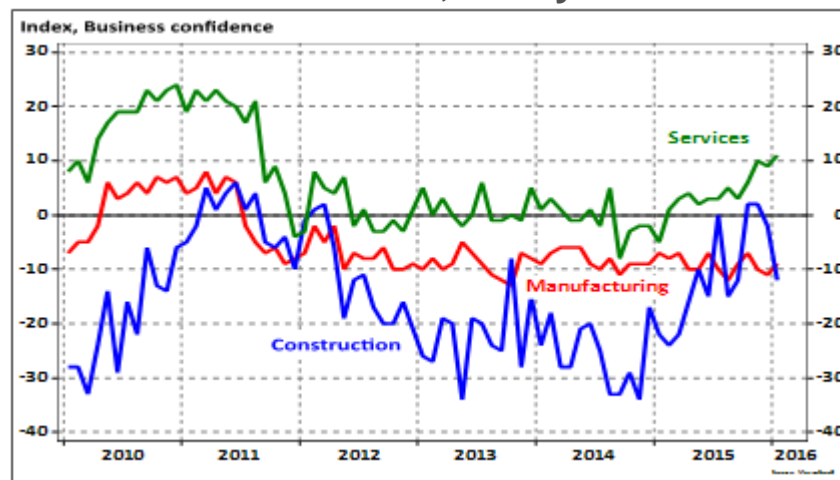


- Recent data and leading indicators point to a stable growth in the Euro Area.
- The Finnish economy reaches mild growth in 2016 after a long downturn.
- Economic activity and population concentrates around few cities, Helsinki Metropolitan Area and Tampere Region. Exports will remain subdued but domestic demand recovers. Headwinds ease.
- Housing market conditions improve, although development diverges across different areas. Transaction volumes up, prices pick up and loan demand increases.
- Urbanization continues and shifts demand towards only a few growth centers. Rural Areas face multiple challenges: brain drain, weak employment opportunities and uncertainty regarding future subsidies.
- Lending times likely to increase as amortization schedules continue to be eased.
- Low interest rates expected well into 2017.

## House prices steady, no bubble in sight



## Growth in the horizon, finally



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# Future Outlook



*“Finnish economy has turned into a slow recovery which can be threatened by global uncertainty and an unstable situation in domestic labor market. Strong urbanization continues, keeping housing markets running in the major growth centers. Low interest rates support housing loan demand. As a home finance specialist focusing in growth centers, Hypo has excellent possibilities to keep growing the business in a profitable manner.*

*The Group management estimates that the 2016 operating profit will reach 2015 levels.”*



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