

Hypo Investor Update 2Q2017

Debt Investor Presentation



Published on August 11, 2017

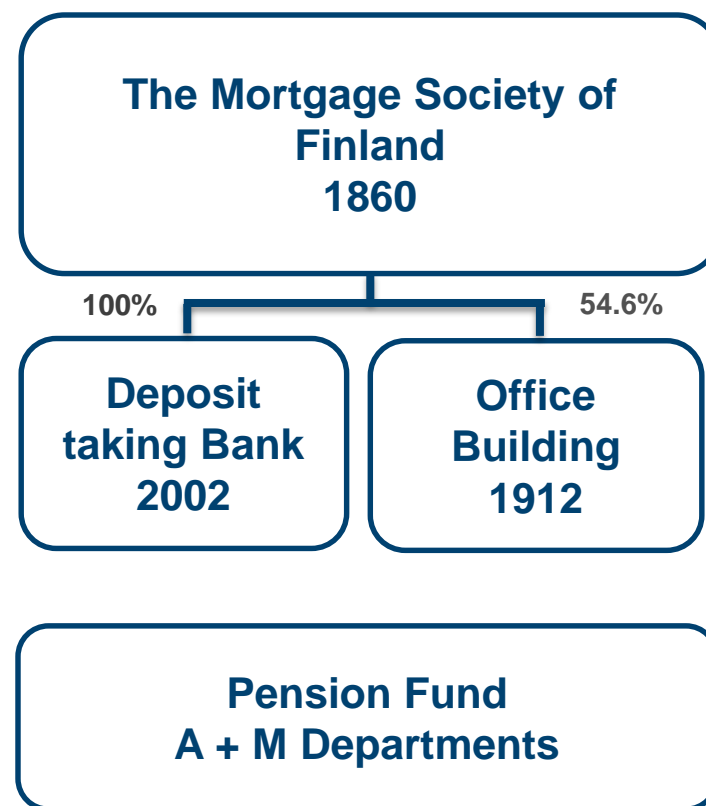


Secure Way for Better Living

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 0.13%)
- Established and regular issuer in Finland
- Total assets EUR 2.6 billion
- S&P rating 'BBB/A-2' (st.)



S&P Issuer Credit Rating of Hypo: 'BBB/A-2' (st.)



Anchor Rating for Finnish Commercial Banks

a-

1. Hypo business position

-2

- Small-sized bank, concentrated niche market position
- Prudent approach in managing risks, restricted operations providing stability

2. Hypo capital and earnings

+2

- Very strong capital and earnings
- Retained earnings fully used for capital build-up

3. Hypo risk position

-1

- Moderate risk position due to concentration in risks
- Partly mitigated by conservative underwriting standards, prudent risk management and outstanding loan-loss track record

4. Hypo liquidity and funding

-1

- Well matched funding profile
- High loan-to-deposit ratio

Hypo Credit Rating

BBB

- The outlook is stable.

Hypo – Leading the Debate on Finnish Mortgage Market

Kauppalehti

Uutiset Pörssi Yritykset Keskustelu Blogit

KL NYT
Tarkemmat uutiset ja terävimmät näkemykset nyt.

27.10. 16.00 (PÖRSSITIEDOTE)
Consti Yhtiöt Oy:n osavuosikatsaus
1-9/2016 julkistetaan 10.11.2016 klo 8.30

27.10. 16.00 (PÖRSSITIEDOTE)
Consti Group Plc:n Interim
January-September 2016
on 10 November 2016 at

27.10. 15.56
Ericssonin ongelmat eivät laarini

27.10. 15.49
Nissan ei pelästynyt brexitin valmistus jatkuu Sunderlandissa

27.10. 15.41
Nykynuorten eläkeläki aleni

27.10. 15.40
REUTERS: Copper hits 20-Chinese demand hopes

KL NYT -kuukie

LUETUIMMAT

Tänään 10.38 TUTUUS

Tutkijat: Saimme viestin muok-
kavaruudesta

Nokian tulos selvästi odotettua

Nokian tulos hämmäntä jälle-

liikevoitto 55 vai 556 miljoonaa?

Tänään 8.37 LIFESTYLE

Hypon Pal ASP remon-

tyksen toimitus-

johtaja Ari Pau-

na ehdottaa, että

säästämissen voi-

si aloittaa 15-vuo-

tuksena.

Antti Lehmusvirta

asunlainen 2016-2017

Asuntolainojen omistajien osuus

ovat karamellit meidän ulottu-

matillemme. Esimerkiksi Ullin-

gimmin on sijoittanut 100 mil-

joon euroa osakekassaan, josta

100 miljoonaa on sijoitettu osake-

kassaan, josta 100 miljoonaa on

sijoitettu osakekassaan, josta

100 miljoonaa on sijoitettu osake-

kassaan, josta 100 miljoonaa on

sijoitettu osakekassaan, josta

Hypo: Suurin vastuu asuntokuplasta on vuokranantajilla ja heidän rahoittajillaan

16.1.2016 8:00 | Päivitetty 16.1.2016 16:35

Asuminen Asuntojen hinnat

Asuntomarkkinat

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ASUNTOMARKKINAT

Asuntovarallisuuden isojako kiihtyy

Asuntokaupan hulluja vuosia on seurannut krapula. Harvoja hyötyjiä ovat parituvut sikkut.



Teksti Taina Vuokko

Asuntomarkkinat on hidastunut merkittävästi. Ennen vaurioituneiden mallien mukaan asuntomarkkinat ovat muuttaneet hieman väkisin, mutta nyt ne ovat alkaneet palautua. Asuntomarkkinat ovat muuttaneet hieman väkisin, mutta nyt ne ovat alkaneet palautua. Asuntomarkkinat ovat muuttaneet hieman väkisin, mutta nyt ne ovat alkaneet palautua.

Hypo: Kasvukeskuksissa asunvasta alkanut - syrjäseuduilla

28.9.2016 9:24 | Päivitetty 28.9.2016 10:09

Asuminen Asuntojen hinnat Sijoittaminen Asuntosijoittaminen



Velkapelko heräsi

Suomalaiset ovat ennätyksellään asuntolainojen korkotoukasta. Asuntolainojen korkotoukasta. Asuntolainojen korkotoukasta.

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TÄNÄN

Meri on nainen ajokorttikuvasta

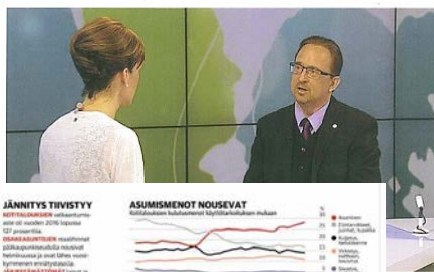
Normandin lahinnoususta 70 vuotta

"Ei kaikkia munia asuntokoriin"

ASUMINEN: Jos perintönä on pelkkä vanha, arvonsa menettänyt loppuunmyyty, voi olla, että perillisille jää vain paljon tekemistä ja merkittäviä kuluja, varoittaa Hypoteekkiyhdistyksen toimitusjohtaja Ari Paua.

Asiantuntija: Suomi jakautumassa kahteen kastiin asuntomarkkinoilla

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



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Financial Results

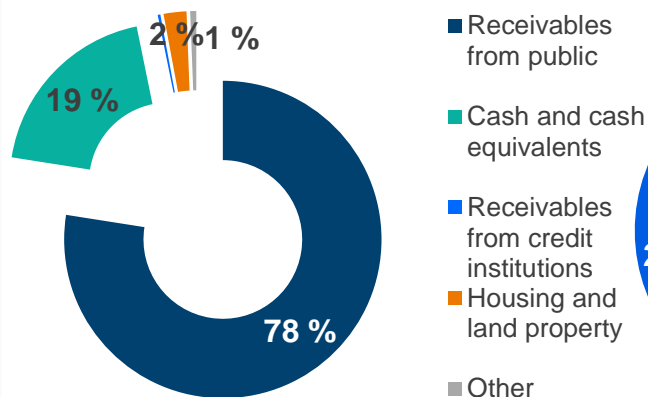


Hypo Group Balance Sheet

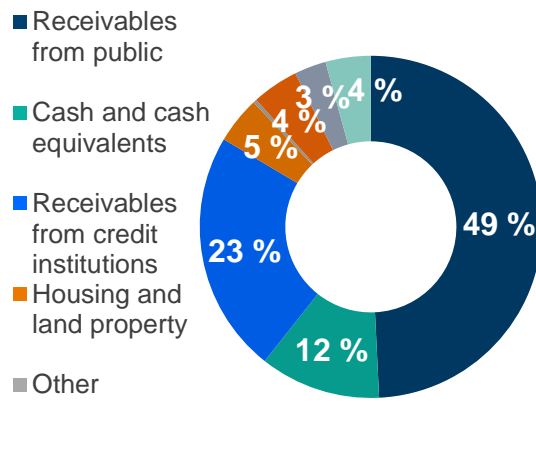
EUR 2.6 billion as of 30.6.2017



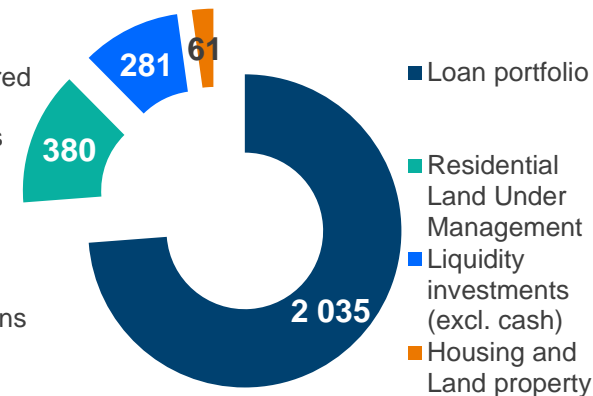
Total Assets



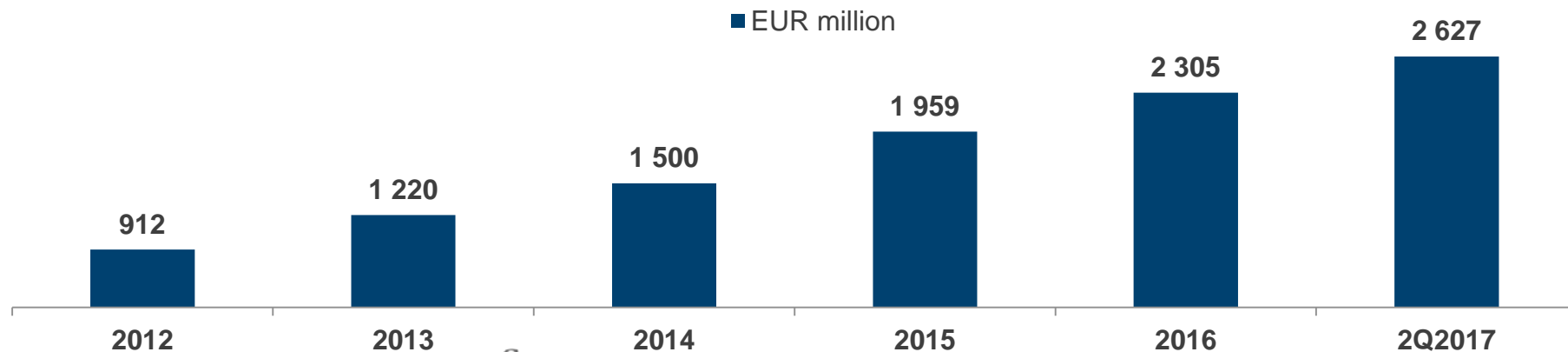
Liabilities and Equity



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



Hypo Group Balance Sheet Total 2011-2Q2017



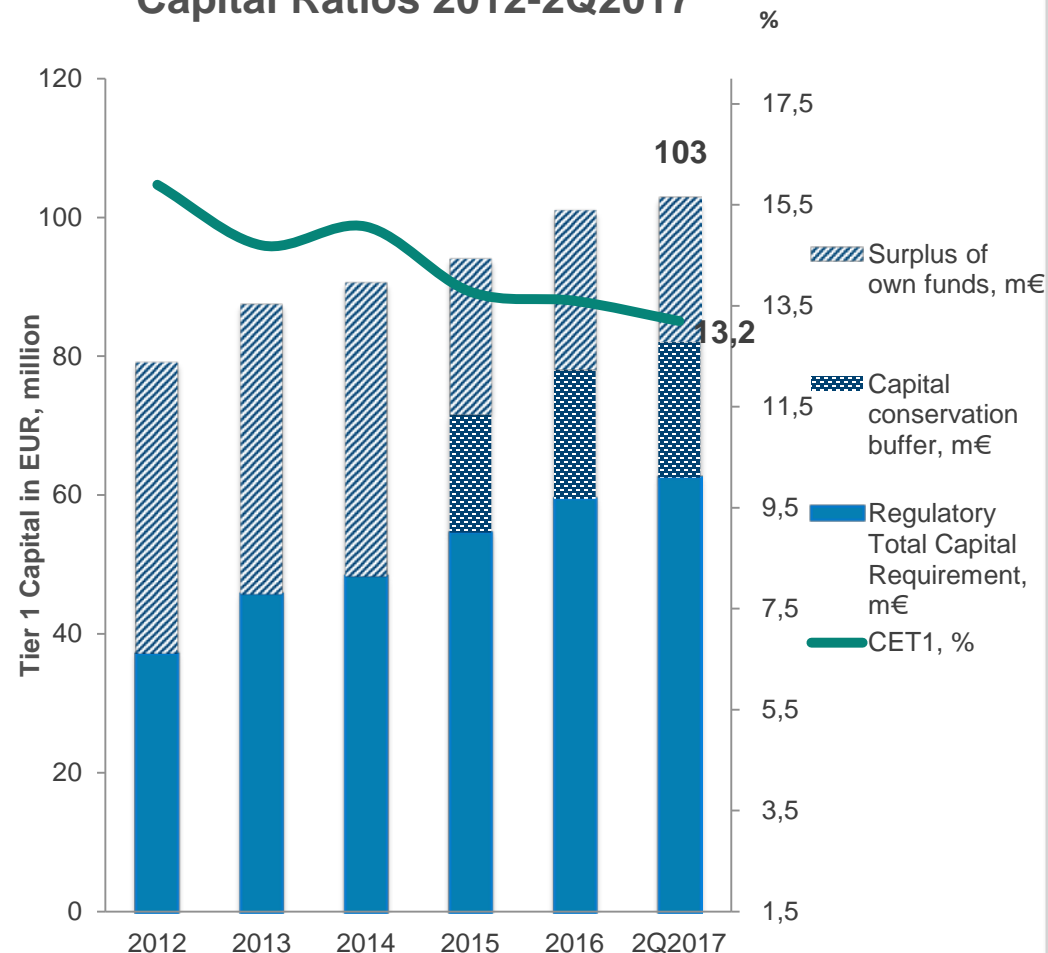
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Solid Capital Under Basel III Standard Approach



- Common Equity Tier 1 at 13.2%
- Mutual company: all profits retained and added to the core capital
- S&P Risk Adjusted Capital ratio at 17.5% on 31.12.2016
 - Significantly higher than Finnish peers applying internal methods
- EUR 20.8 million of excess capital after
 - 8.0% Regulatory TC requirement
 - 2.5% Capital Conservation Buffer
- EUR 5.8 million of hidden reserves in housing property (not marked-to-market) and EUR 6.3 million of surplus in Pension Fund
 - Inclusion into CET1 would raise the ratio to 14.4%
- Basel III standardized approach risk weights
 - Lending with residential collateral: 35% risk weight
 - Housing and land investments: 100% risk weight

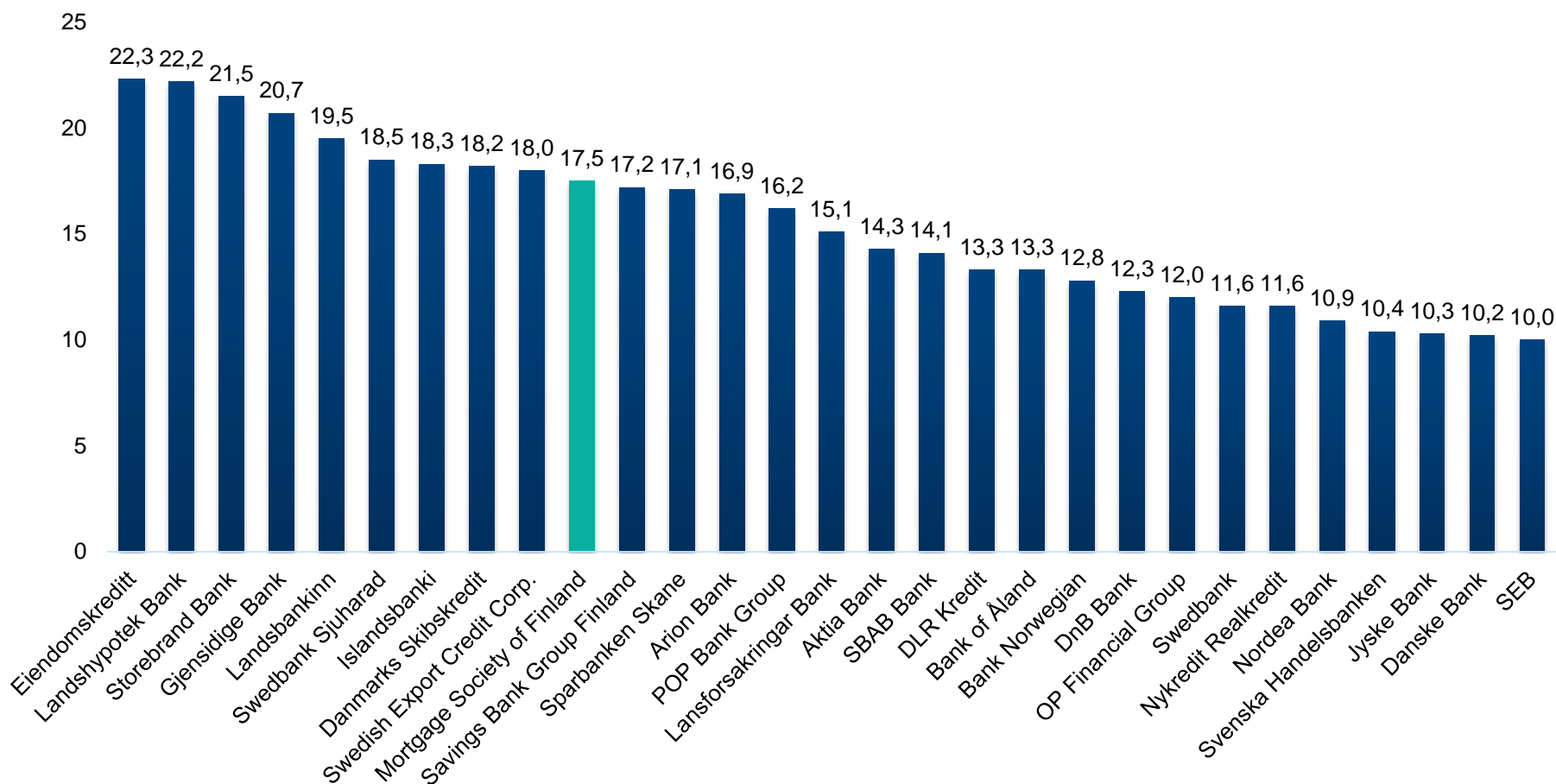
Capital Ratios 2012-2Q2017



Hypo's S&P Risk Adjusted Capital 'very strong' 17.5% on 31.12.2016



S&P's Nordic RAC Ratios as of 31.12.2016



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Group Income Statement



(EUR 1 000)	1H2017	1H2016	2016	2015
Net Interest Income	3 951	2 049	5 386	4 574
Net Fee and Commission Income	1 883	2 499	4 439	3 344
Total Other Income	3 069	5 179	7 924	8 667
Total expenses	-5 769	-5 121	-10 403	- 9 141
Operating Profit	3 134	4 607	7 347	7 444

- Net Interest Income almost doubled to EUR 4.0 million (2.0 million 1H16) due to loan portfolio growth and continued decrease in funding costs.
- Hypo Group's operating profit before tax fell to EUR 3.1 million (EUR 4.6 million 1H16).
- Net Fee and Commission Income for the period decreased to EUR 1.9 million (2.5 million) due to intensified competition in Land trustee services.
- Total other income (incl. Treasury operations and investments in housing and residential land) decreased to EUR 3.1 million (5.2 million)
- Total expenses increased to EUR 5.8 million (5.1 million) following a contribution payment to the Financial Stability Authority during 1Q17.

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Group Key Financial Figures



	1H2017	1H2016	2016	2015
Common Equity Tier 1 ratio (%)	13.2	12.9	13.6	13.8
Cost-to-income ratio (%)	64.9	52.6	57.1	55.2
Non-performing assets, % of the loan portfolio	0.13	0.24	0.11	0.16
Loan-to-value ratio (%)	38.3	39.6	38.4	41.1
Loans-to-deposits (%)	157	156	150	137
Loan portfolio total (m€)	2 035	1 649	1 806	1 421
Balance sheet total (m€)	2 627	2 150	2 305	1 959

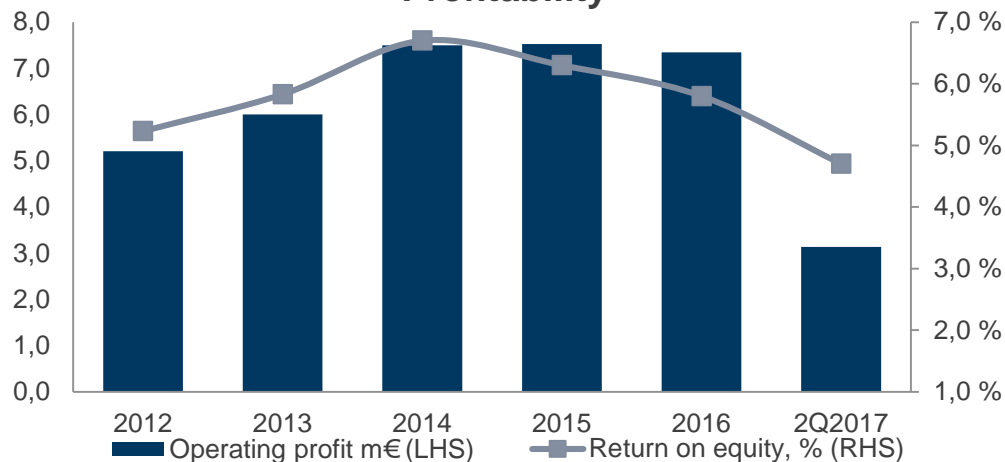
- Total assets increased to EUR 2.6 billion (EUR 2.2 billion 1H16)
- Loan portfolio increased to EUR 2.0 billion (1.6 billion 1H16)
- CET1 ratio increased to 13.2% (12.9% 1H16)
- Amount of equity increased to EUR 112.2 million (EUR 106.4 million 1H16).
- Average LTV was stable at 38.3% (39.6% 1H16)
- Group's financial position remained stable throughout the period

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Financial Performance – Net Interest Income Doubled Despite Low Interest Rates

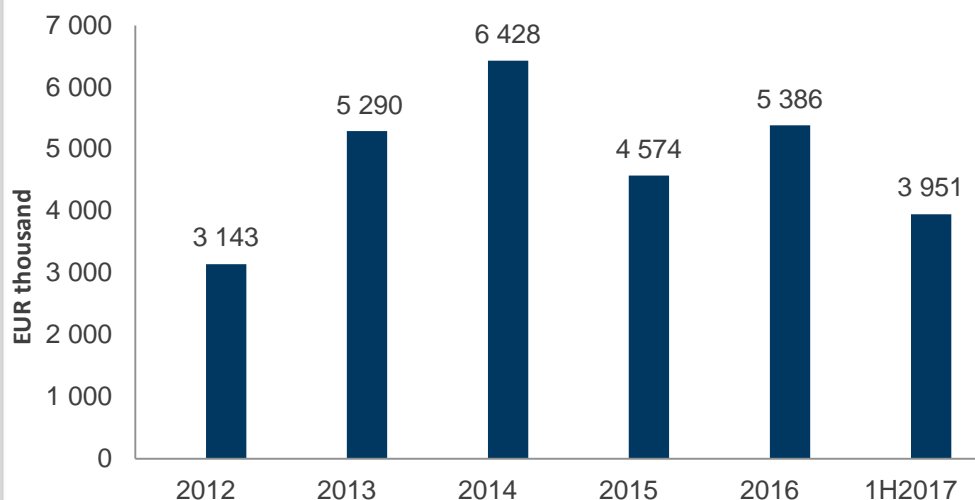


Profitability

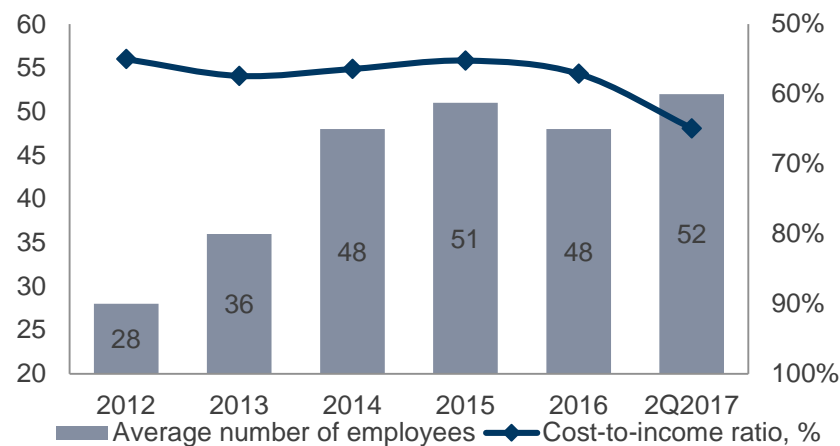


- Net interest income almost doubled to EUR 4.0 million (2.0 million) due to successful diversification of funding sources
- Operating profit decreased to EUR 3.1 million (4.6 million)
- Cost-to-income ratio deteriorated to 65% (53%) due to increased contribution payment to the FSA in 1Q17, and change in its accounting treatment.

Net Interest Income 2012-1H2017



Cost-to-Income Ratio (%) and Average Number of Permanent Employees



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Hypo's Loan Book

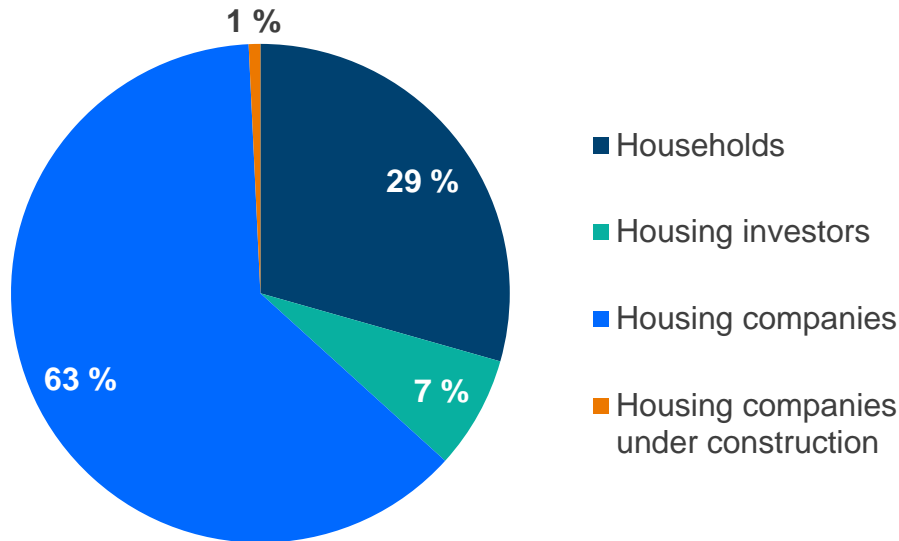


Loan Book Overview

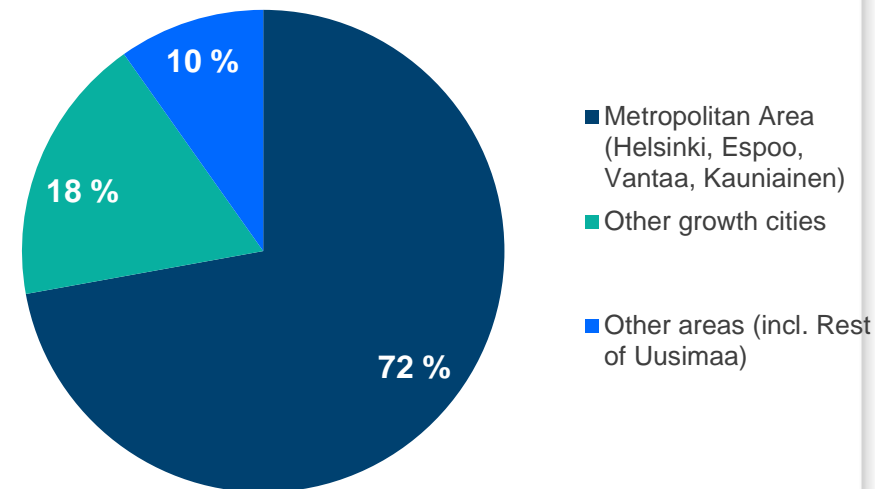


- Mortgage loans secured by residential property
- Collateral requirement is set in the Finnish Act on Mortgage Societies
- Two main customer groups
 1. Households and private individuals: home mortgage, buy-to-let
 2. Housing companies: renovation loans, construction phase loans

Lending by Customer Type



Loan Book by Customer Domicile

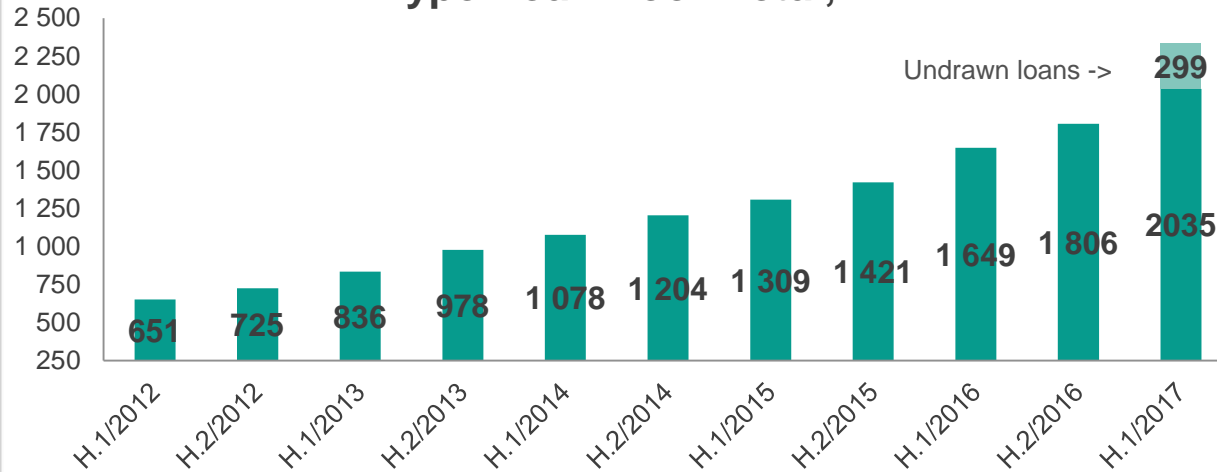


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Hypo Loan Book Growing Steadily



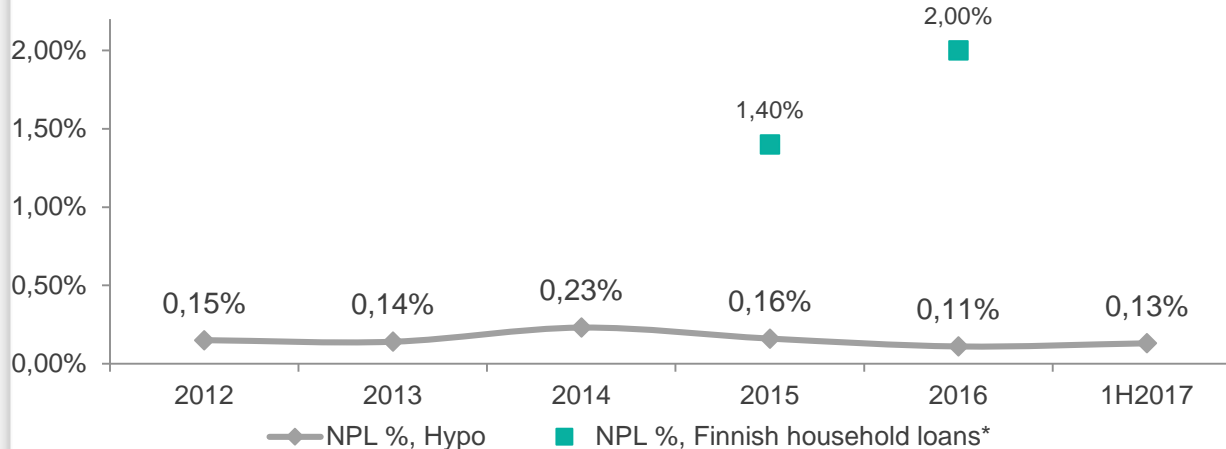
Hypo Loan Book Total, m€



Undrawn loans ->

- Hypo's loan book increased 13% during 1H17, reaching EUR 2.0 billion (1.8 billion ye16)
- Currently EUR 299 million 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
- Non-performing loans remained very low at 0.13% of the total loans
- The quality of the loan book well above the Finnish household average NPLs (2.0% ye2016)*

Non-performing Loans (%)

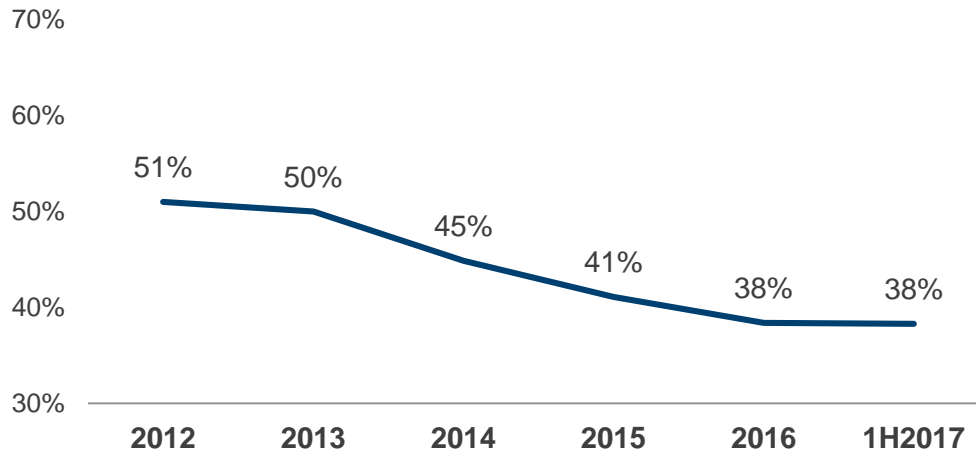


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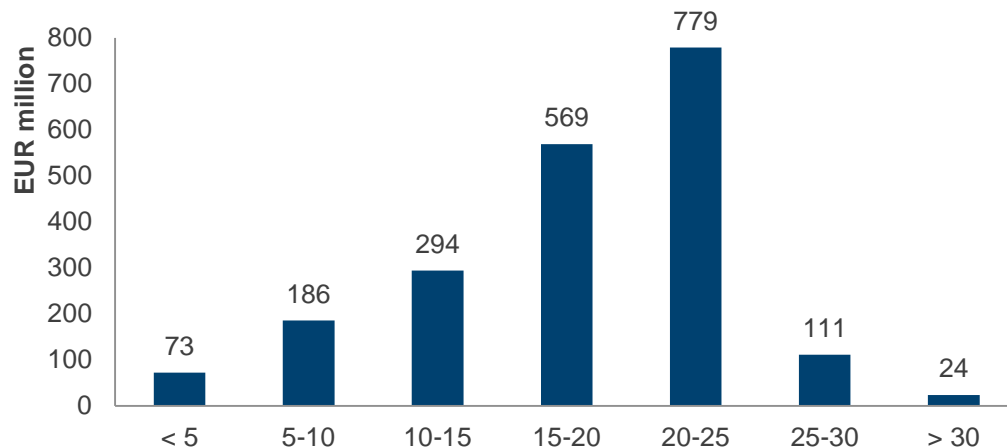
Loan Book Quality Excellent



Hypo Loan Book Average LTV



Loan Book by Remaining Maturity (years) as of 30.6.2017



- Hypo's loan portfolio is entirely secured by residential property
- The average LTV (loan-to-value) stable at 39% (40% 1H16)
- 94% of the loans are amortizing and only 6% bullets
- 93% of loan book is risk weighted at 35% or lower
- 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



- Issuance of covered bonds started in 2016
 - No separate entity, issuer is the group parent
 - Larger issues (>250 million) LCR level 2A eligible
- 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
 - ECB repo counterparty
 - Bilateral loans (e.g. NIB cooperation)

Outstanding Issues as of 30.6.2017 (original amount issued)

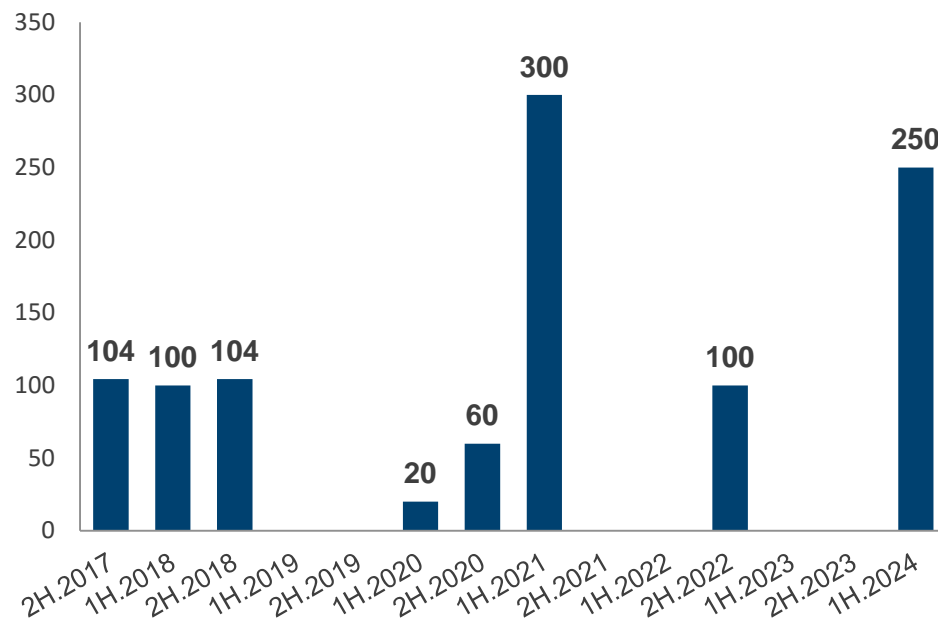
ISIN	Issue Date	Maturity Date	Type	Nominal Issued (m€)	Coupon
FI4000092598	29.4.2014	30.10.2017	Senior Unsecured	75	FRN 6M +1.00
FI4000092598 (tap)	22.9.2014	30.10.2017	Senior Unsecured	25	FRN 6M +0.90
FI4000123021	4.12.2014	4.6.2018	Senior Unsecured	75	FRN 6M +0.95
FI4000123021 (tap)	16.1.2015	4.6.2018	Senior Unsecured	25	FRN 6M +0.95
FI4000186614	4.12.2015	4.12.2018	Senior Unsecured	100	FRN 6M +0.90
FI4000206966	10.5.2016	10.5.2021	Covered	250	Fixed +0.25
FI4000206966 (tap)	27.9.2016	10.5.2021	Covered	50	Fixed +0.25
FI4000232855	7.12.2016	7.12.2022	Covered	100	Fixed +0.25
FI4000266903	28.6.2017	28.6.2024	Covered	250	Fixed +0.375

Well Diversified Funding Profile

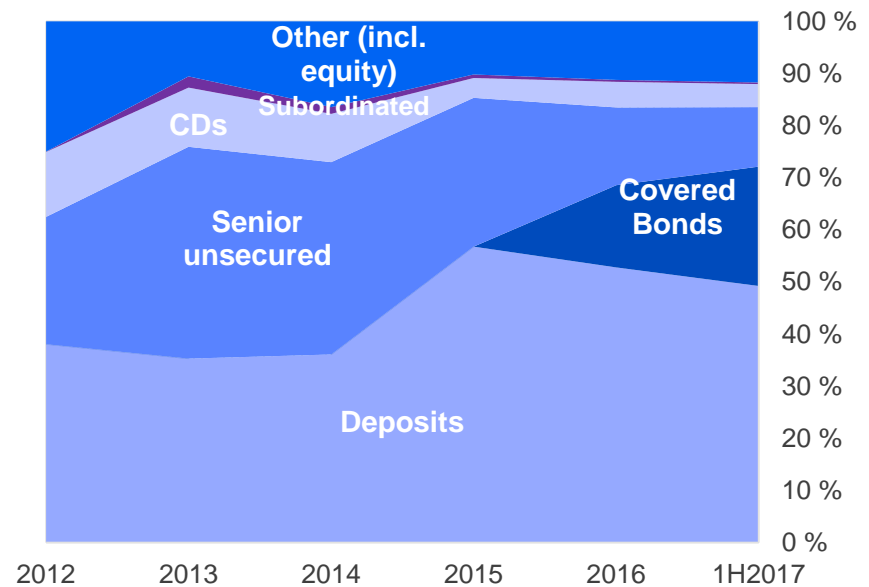


- Domestic Program for the Issuance of Senior Unsecured and Covered Bonds
- Deposit funding through the AsuntoHypoPankki subsidiary
 - >50% of total funding
- Domestic CD program for short term funding
- Possibility to participate in the ECB market operations

Wholesale Funding Maturity Profile



Funding Structure 2012-1H2017



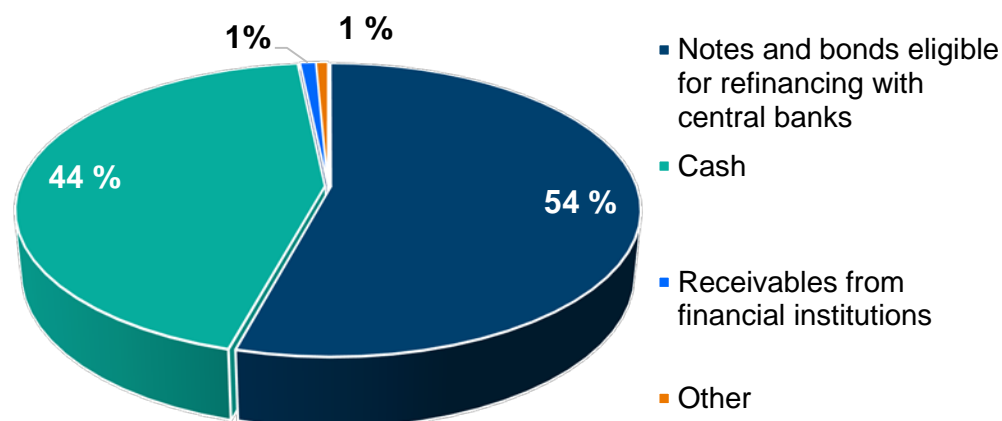
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Solid Liquidity Position



- **Liquidity portfolio EUR 518 million as of 30.6.2017**
 - Equaling 19.6% of total assets
 - Conservative investment policy
 - 93% of debt securities invested in at least 'AA-' rated instruments
 - 100% of debt securities are ECB repo eligible
 - Only EUR denominated exposure
 - Hypo's domestic MTN and CD programs support the liquidity
 - LCR 172% (144% ye2016)
 - Liquidity covers maturing wholesale funding for the following 39 months

Liquidity Portfolio as of 30.6.2017



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Outlook for 2017



Future Outlook



"Finnish economy is showing strong growth in 2017, which has positive repercussions on housing market and loan demand. The urbanization in Finland continues and supports the housing and mortgage markets in the biggest growth centers yet, at the same time, the decline of regions experiencing net population outflows continues. Uncertainties in the European and world economies may continue to weaken the outlook.

Following the increase in loan portfolio and net interest income, Hypo's core business' share of the profit for the financial period keeps growing but due to the tight competition in land trustee services, January- September results are expected to remain below of their comparison period. The operating profit for 2017 is expected at most to reach the 2016 level or to remain slightly lower. Hypo concentrates on its core business operations, whereupon risk level of lending is expected to become more moderate and capital adequacy to remain almost unchanged."



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