

Hypo Investor Update 2019

Debt Investor Presentation



Hypo Covered Bond Roadshow February – March, 2019

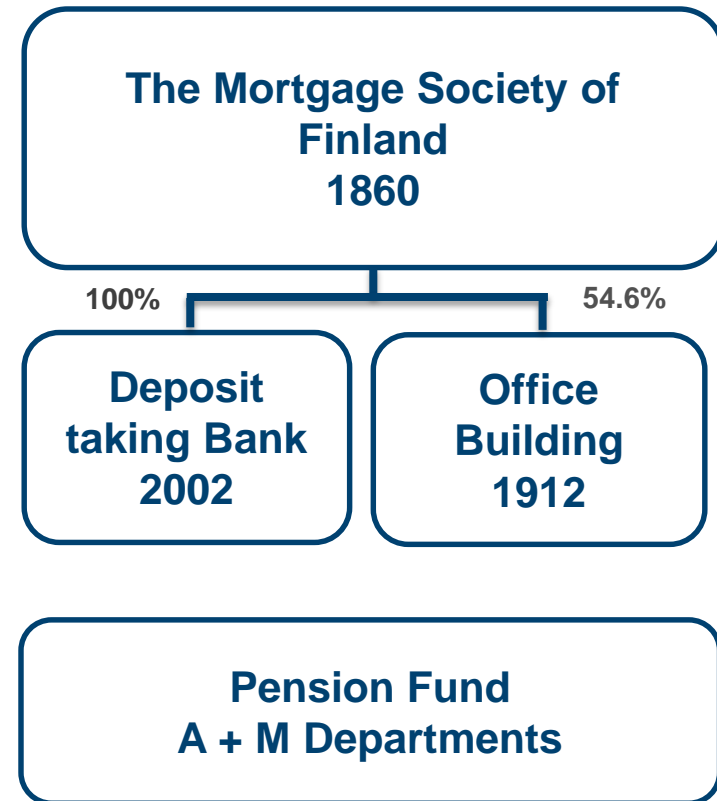


Secure Way for Better Living

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 0.07%)
- Established and regular issuer in Finland
- Total assets EUR 3.1 billion
- S&P issuer rating 'BBB/A-2' (st.)
- S&P covered bond rating 'AAA' (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
- Conservative approach to risks and a very low risk appetite

2. Hypo capital and earnings

+2

- Very strong risk-adjusted capitalization
- Strong asset quality and exceptional loan loss track record in the past decades.
- Mutual business model: 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 and an exceptional loan loss track record

4. Hypo liquidity and funding

-1

- Matched funding profile but elevated dependence on wholesale funding
- Increased share of covered bonds leads to a more balanced funding profile
- Elevated loan-to-deposit ratio

Hypo Credit Rating

BBB (st.)

Hypo Leading the Debate on Finnish Mortgage Market

Kauppalehti

Uutiset Pörssi Yritykset Keskustelu Blogit

KL NYT

Tärkeimmät uutiset ja terävimmät näkemykset nyt.

Hypo: Suurin vastuu asuntokuplasta on vuokranantajilla ja heidän rahoittajillaan

yle UUTISET

Etusivu Tuoreimmat Urheilu Sää Presidentinvaalit Kotimaa Ulkomaat



Hypo: Kasvukeskuksissa asuntojen vasta alkanut - syrjäseuduilla pahin

18.9.2016 9:24 | Päivitetty 28.9.2016 10:09

Asunnot Asuntojen hinnat Sijoittaminen

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

Asiantuntija: Suomi jakautumassa kahteen

Hypo: Asuntojen hinnat kasvukeskuksissa, muu synkempää – kasvukes-

Asuntolaina ei ole enää ulkopuolella kehitys "miinusmerkkistä"

kahvipaketti vaan mäyräkoira, ja kankkunen uhkaa"

Yli puolet ensiasunnoista ostetaan pääkaupunkita-

Tampereelta eli niin kutsutusta kasvukolmiosta.

Asuntojen hinnat 17.11.2017 klo 06:00

liikevoitto 55 vai 556 miljoonaa?

Tänään 8.37

LIFESTYLE

"Asuntokuplien syntymisen po-

Hypon Pauna: ASP remontoitava

Hypoteekkiyhdistyksen toimitusjohtaja Ari Pau-

na ehdottaa, että säästämisen voisi aloittaa 15-vuotia-

ASP-säästäminen

ASP-säästötilitin voimassa 18-30 vuotta heräsi, jolloin di-

alkoivat remontit 50 prosent-

tiä tai ostopää asunnosta. Myös

asuntojen voivat ryhtyä yhdessä

ASP-säästämiseen vähintään 10 po-

stetusta asunnosta tai tallettamaan 10

ilukseen tulevan osuuden hinnasta.

Talletusten tulos ole 150-3000

euroa.

Mahdollista saada valtion korotus-

asuntolainaan.

apua. Tämä on h-

koat ASP-säästäm-

den asuntolainan

"Minua ha-

tehtämiä olen aj-

elisi monin koh-

tyt säästämisen

18-vuotiaana.

vuotta olisi h oman

himitänsäot pal-

maan nykyi-

"Asun-

neet meidän

monien vuot-

taisuuden ala-

vuosikym-

Julkisuu-

telua, onko

tarvetta."

Joulumi-

lainen silloin,

en vau-



-Vaikka mymmärän Fivan toimia, toivoisin täsmätoimia. Oikeampi ja tehokkaampi osote kirj-

sanoo. (Kuva: Heikki Saukkomaa/Lehtikuva)

Julkaisu: 19.3.8:05

Jaa

Twiiita

in

Asuntolainojen omarahoitusosuudet ovat karsineet monen ulottu-

säajottamisen. Esimerkiksi Helsingin-

sa kymppitoiminn säästöillä on lähi-

laidetava pääkaupunkiseudun sää-

laidoille asuntola-

Hypoteekkiyhdistyksen toimi-

usjohtaja Ari Paua tarjoaa ennak-

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laidoille asuntola-

Hypoteekkiyhdistyksen toimi-

usjohtaja Ari Paua tarjoaa ennak-

Finanssivalvonta saattaa tänään kiristää asuntolainojen laina-

Hypen Ari Paua ei ihmetteli, jos lainakatto kiristytisi, mutta

sitä ennemmin sijoitusasuntolainoille kuin tavallisille laina-

asiakkaille.

Heikki Saukkomaa
© Heikki Saukkomaa/Lehtikuva.com

Hypo-toimitusjohtaja Ari Paua on nyt puolesta vii-

me vuosien toimitusjohtajana kasvukeskuksissa asu-

ntokuplasta. Hän on myös Hypo:n suurin osakkeenomistaja.

Hypo on Suomen suurin asuntolainojen rahoittaja. Se on

suomen suurin asuntolainojen rahoittaja. Se on

suomen suurin asuntolainojen rahoittaja. Se on



"En olekaan, että asuntolainat rahoittamasta tulon näin jättä. En

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olekaan, että asuntolainat rahoittamasta tulon näin jättä. En



Velkapelko heräsi

Suomalaiset ovat ennätysvakaantuneita, asuntolainojen korot ovat ennätysmatalia ja

korot nousivat. Fiva huolestui yhtiöstä. Pankit eivät jä huolta, mutta Hypo ymmärtää.

Reini Miettinen

Asuntolainojen korot nousivat tänään kiristää asuntolainojen laina-

Hypen Ari Paua ei ihmetteli, jos lainakatto kiristytisi, mutta

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sitä ennemmin sijoitusasuntolainoille kuin tavallisille laina-

asiakkaille.

Finnish Economy & Housing Market

Overview



Finnish economy in a nutshell

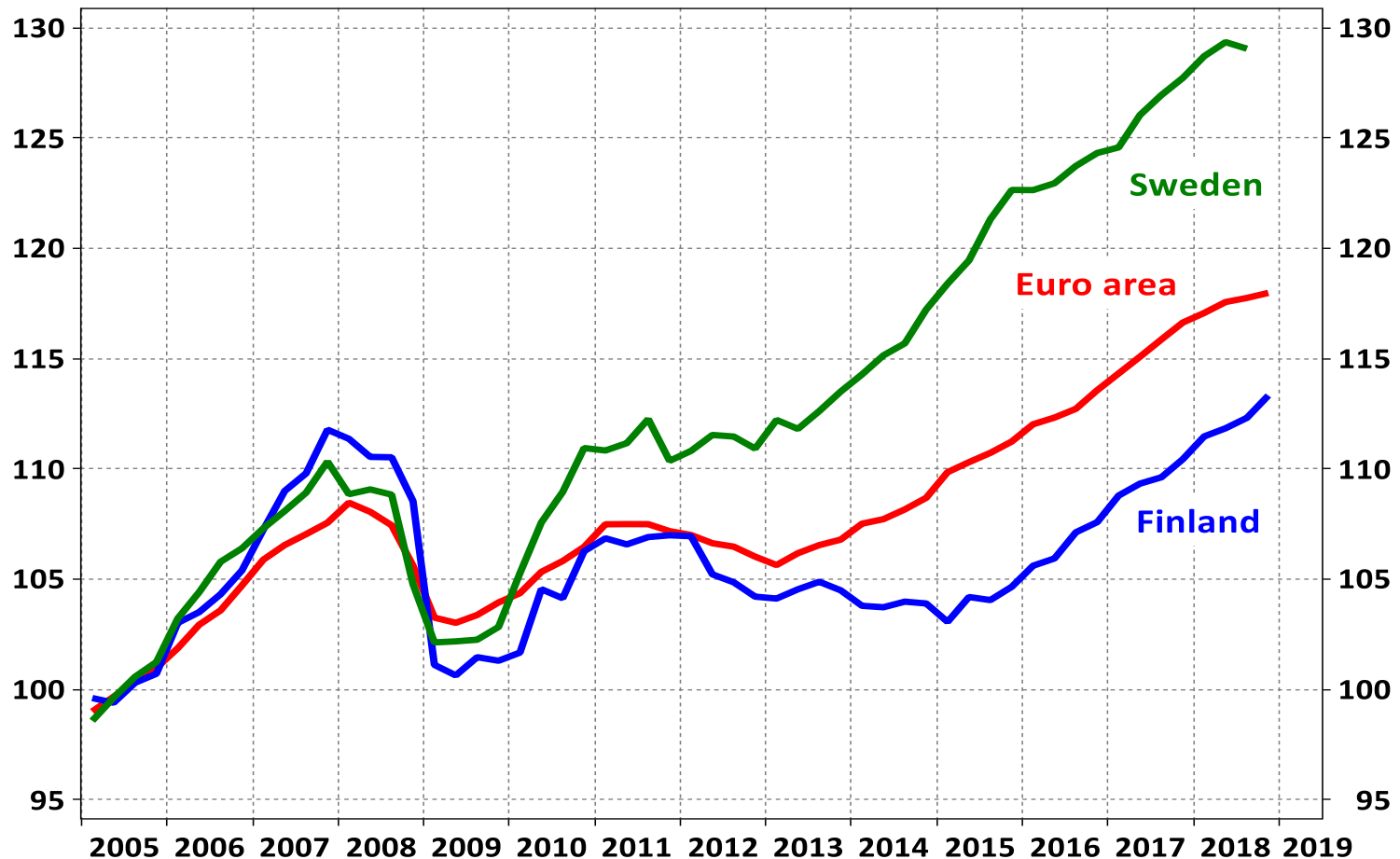


				Forecast	
National account	2017	2017	2018	2019	2020
	EUR bn (current prices)			% y/y	
GDP	224	2,8	2,5	1,5	1,5
Imports	86	3,5	3,0	2,5	3,0
Exports	86	7,5	3,0	2,5	3,5
Private Consumption	122	1,3	1,7	1,5	1,5
Public Consumption	51	-0,5	1,0	0,5	0,5
Investments	50	4,0	2,5	1,0	1,5
Economic indicators	2017	2018	2019	2020	
Unemployment rate, %	8,6	7,5	7,0	6,5	
Earnings, % y/y	0,2	1,8	2,5	2,5	
Inflation, % y/y	0,7	1,1	1,5	1,5	
Housing prices, % y/y	1,1	1,1	1,0	1,0	
Current account, % of GDP	-0,7	-1,1	-0,8	-0,8	
Public deficit, % of GDP	-0,6	-0,5	-0,5	-0,1	
Public debt/GDP, % of GDP	61,3	59,5	58,5	57,5	

Finland finally growing strong after painful “lost decade”



2005 = 100, GDP

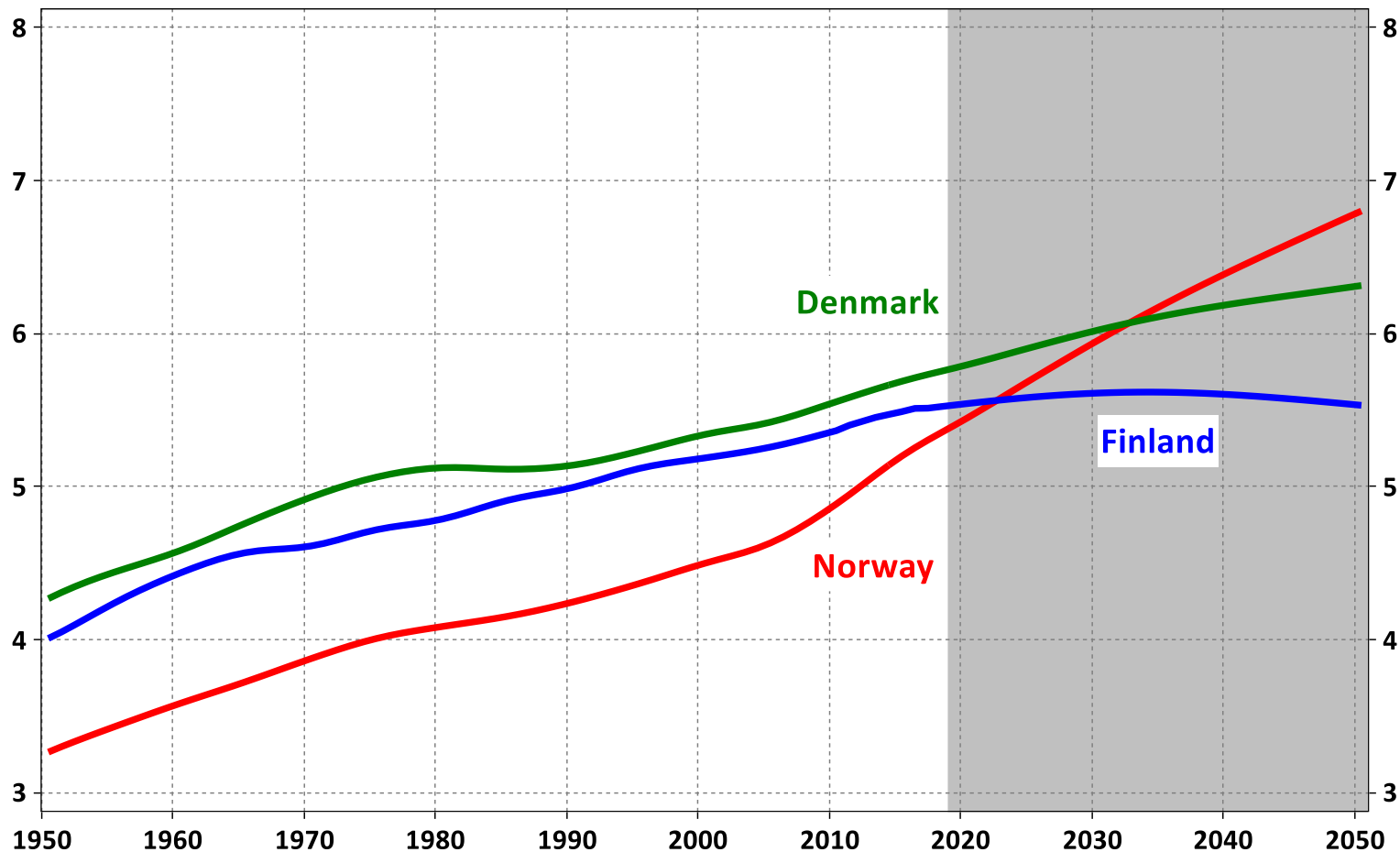


Source: Macrobond

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Finland aging and soon shrinking

Million, Population, Projection: UN, Statistics Finland

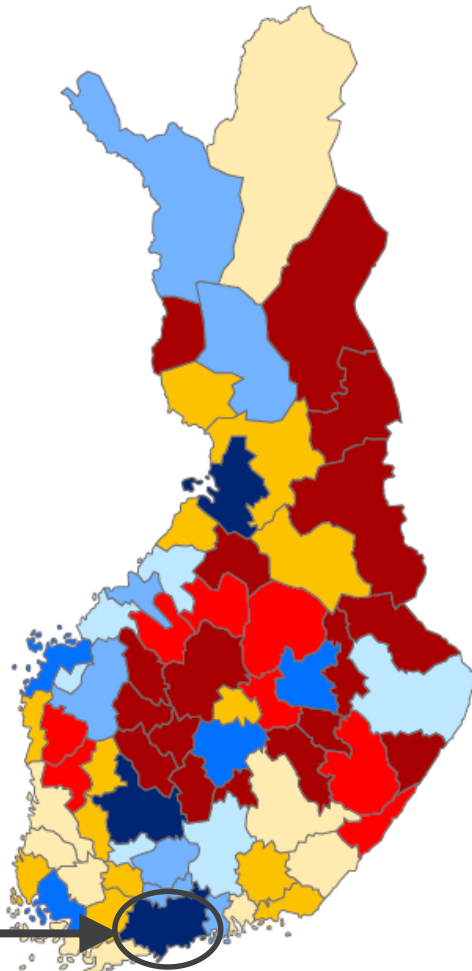


Source: Hypo, Macrobond

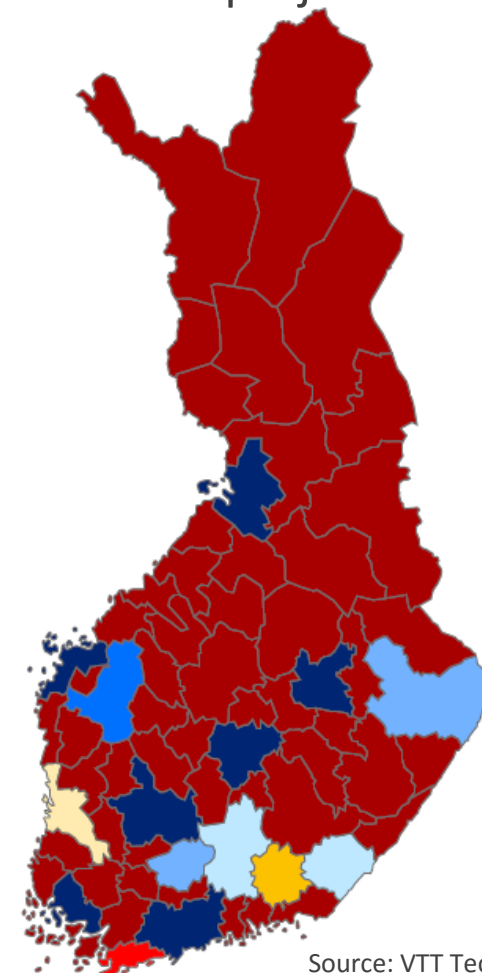
SECURE WAY FOR BETTER LIVING.

Urbanization continues: Population projection 2015-2040

Statistics Finland
official forecast

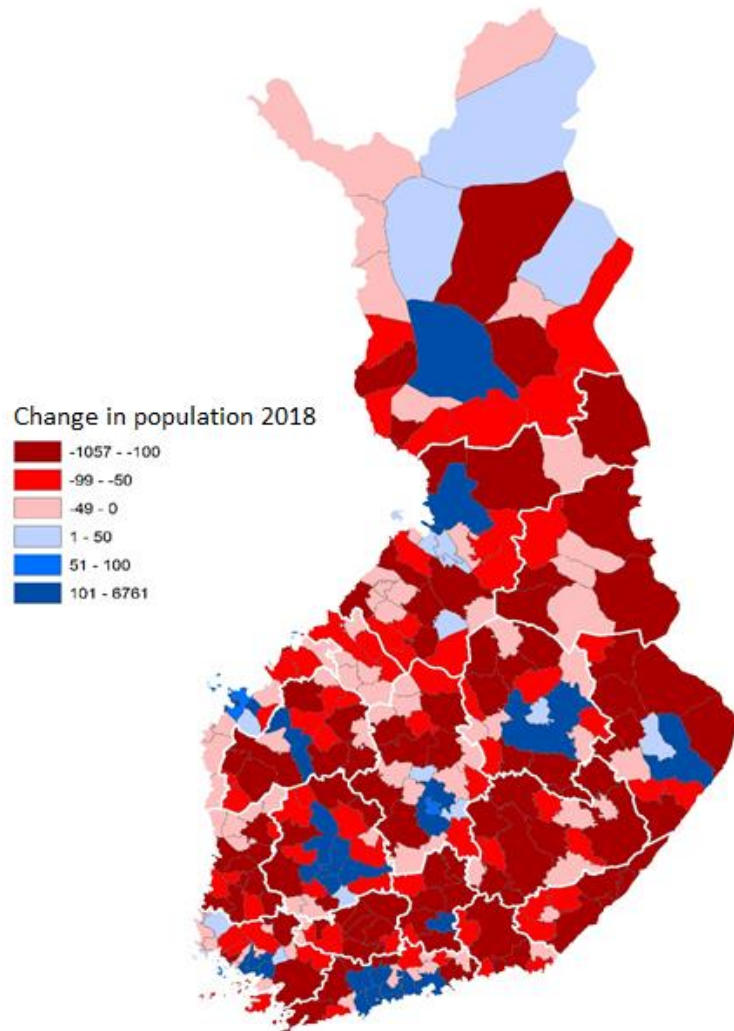


Trend development
2010-2014 projected to 2040

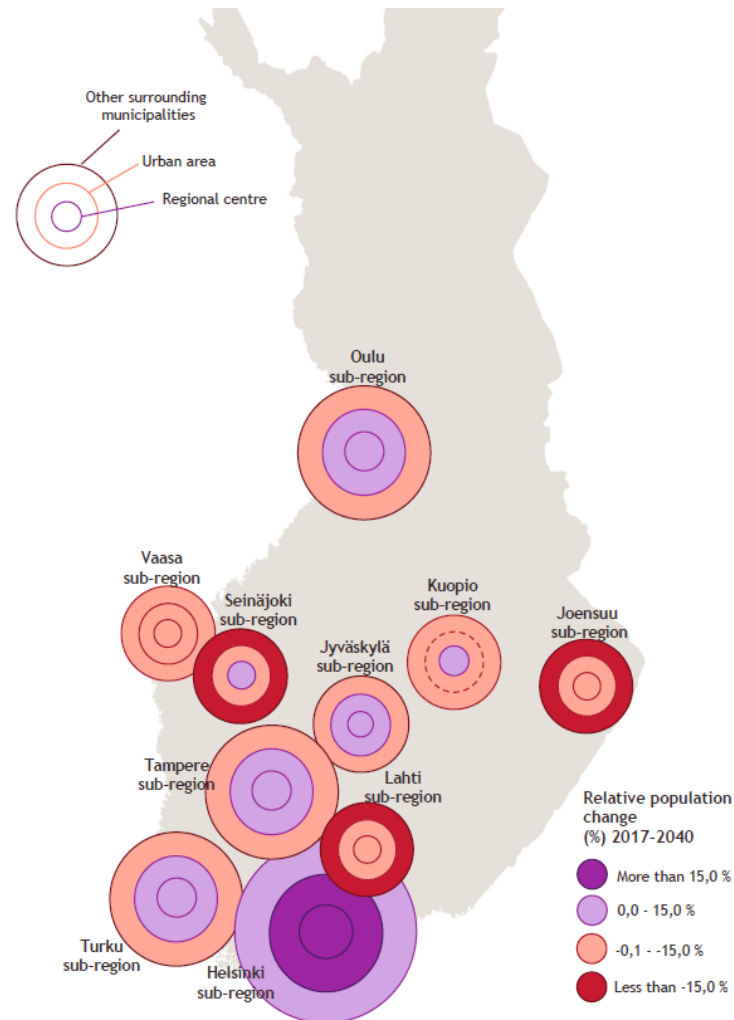


Urbanization and polarization steep

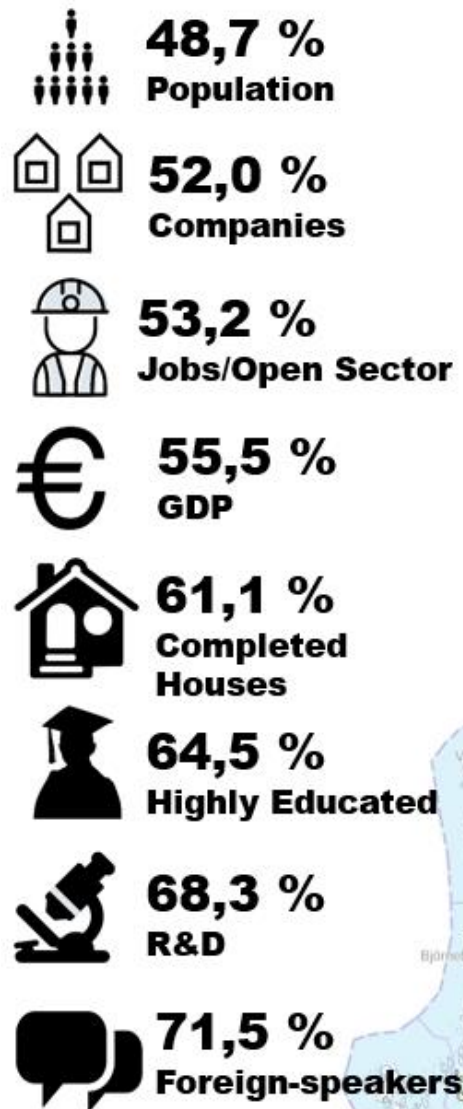
Change in 2018



Projection to 2040



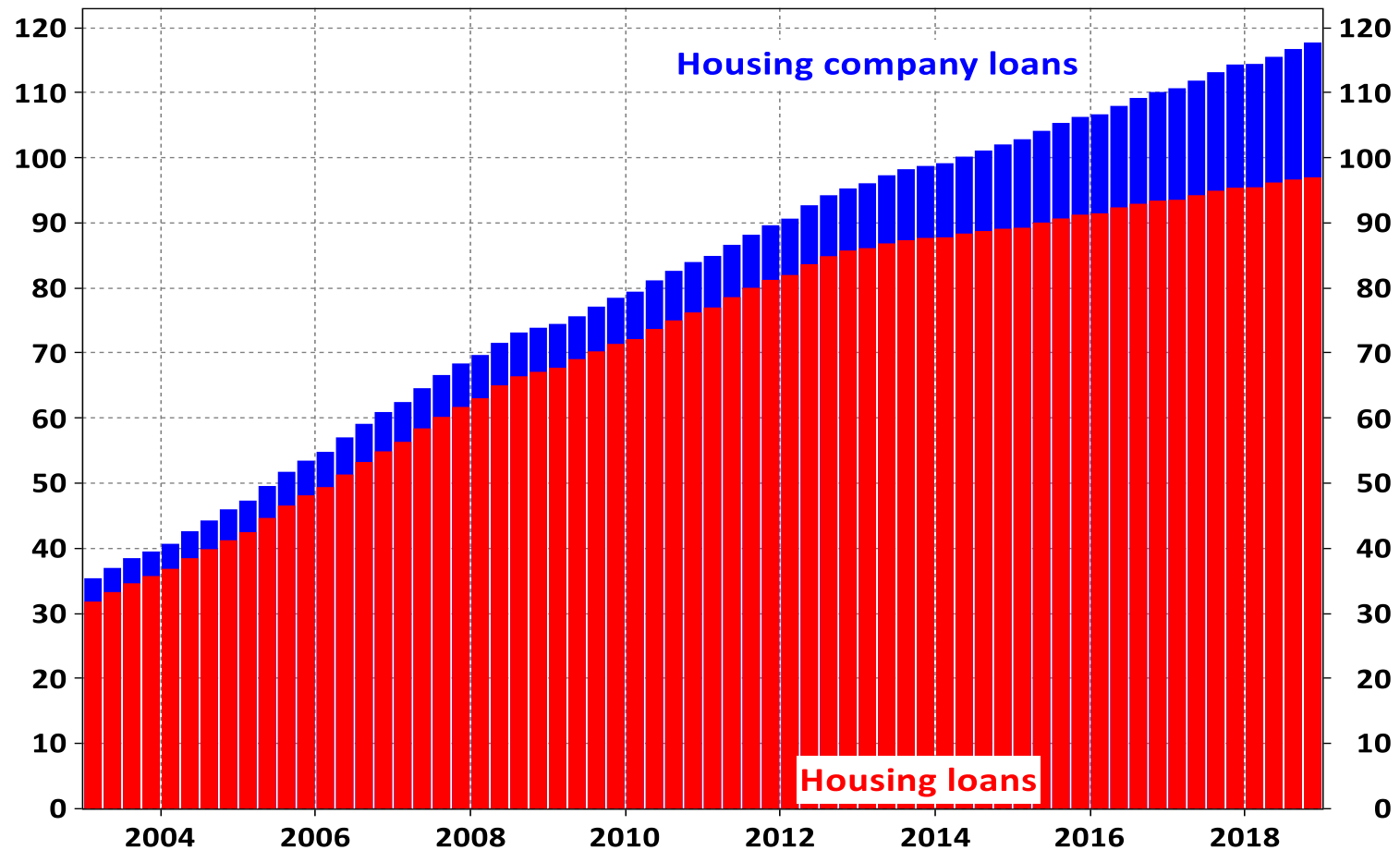
Growth Triangle



Source: Statistics Finland

Indebtedness increasing...

EUR billion, household indebtedness

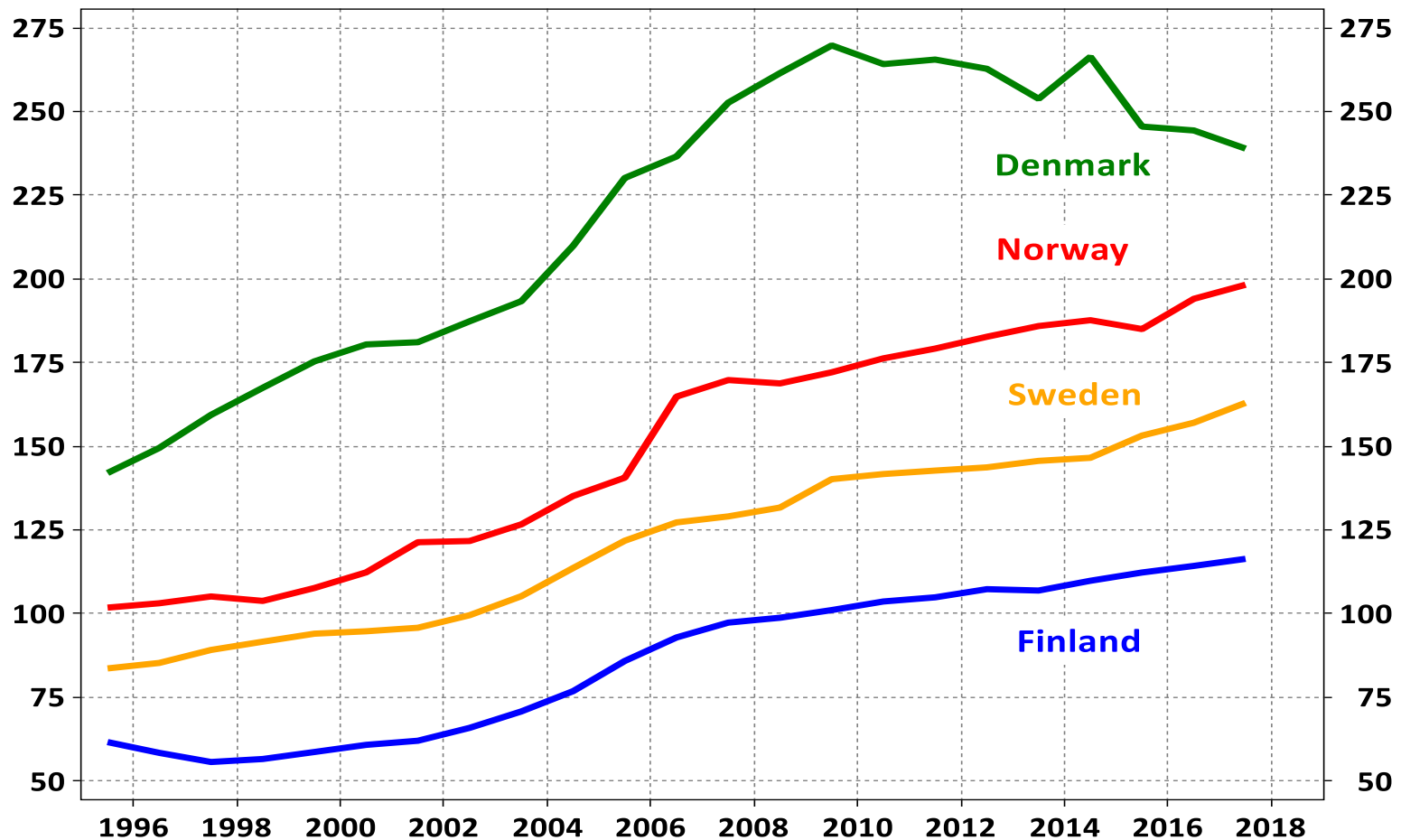


Source: Macrobond

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...level still low compared to peers

%, Gross Debt-To-Income Ratio of Households



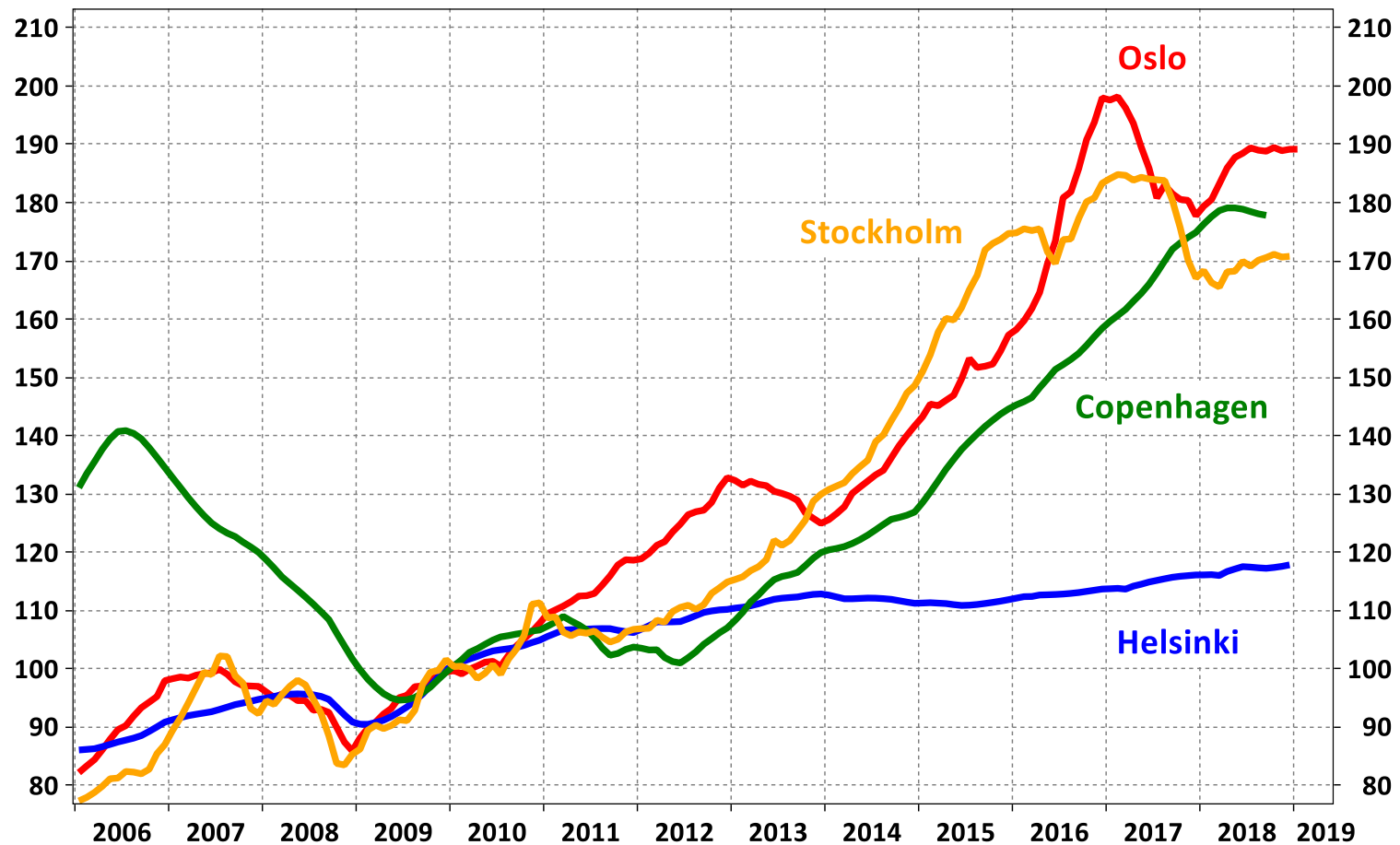
Source: Macrobond

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Helsinki prices stable



2010 = 100, apartment prices, seasonally adjusted



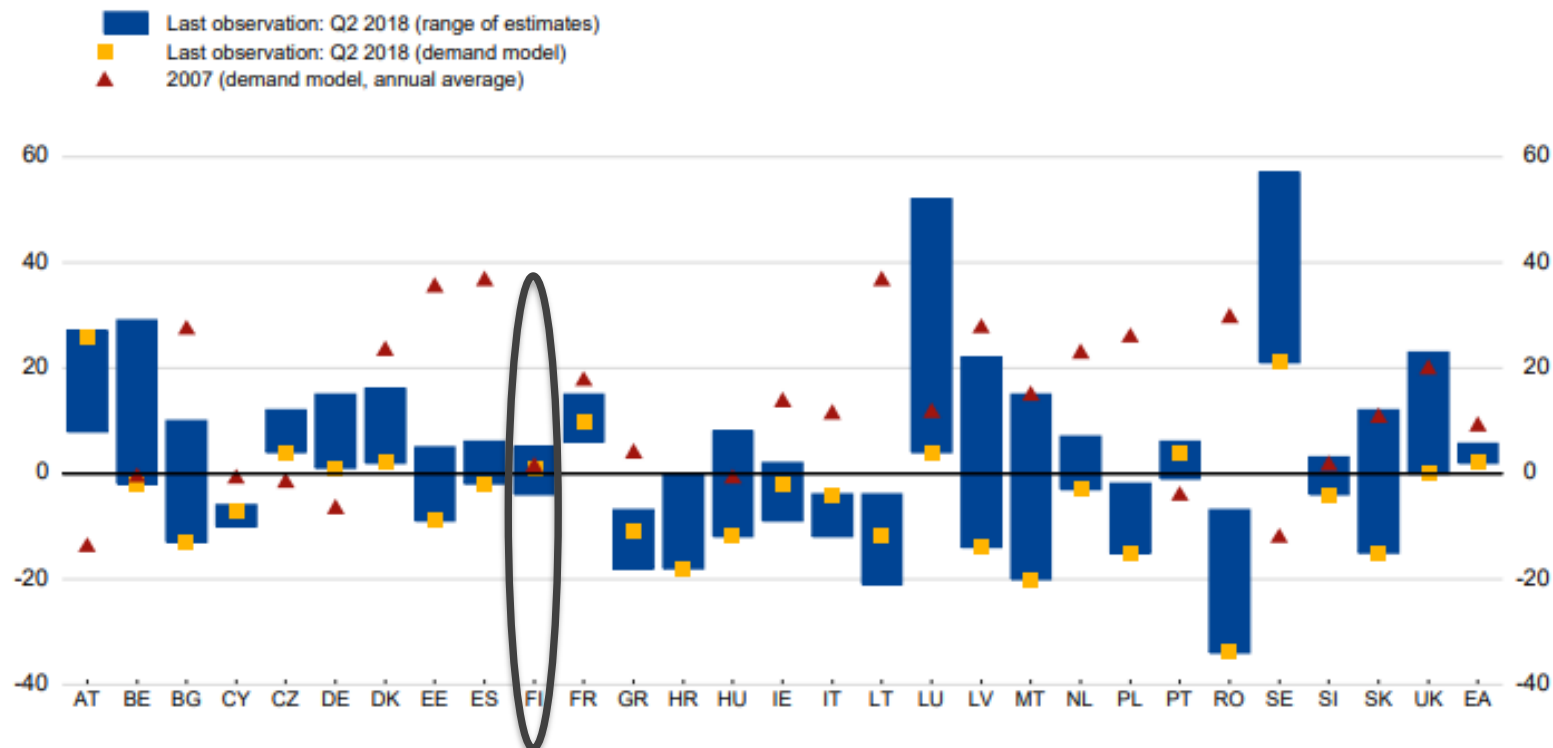
Source: Macrobond

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No housing bubble - in Finland

3.12 Over/undervaluation of residential property prices

(EU; percentages)



Sources: Eurostat, national sources, ECB and ECB calculations.

Notes: Estimates based on four different valuation methods: price-to-rent ratio, price-to-income ratio, asset pricing approach and a Bayesian estimated inverted demand model. For further details see Box 3, Financial Stability Review, ECB, June 2011; and box 3, Financial Stability Review, ECB, November 2015. For each country, the blue bars represent the range of estimates across the four valuation methods. For BE, CY, LU, SI and CZ, DK, HU, RO and HR the last observation refers to Q1 2018.

Financial Results

Full Year 2018

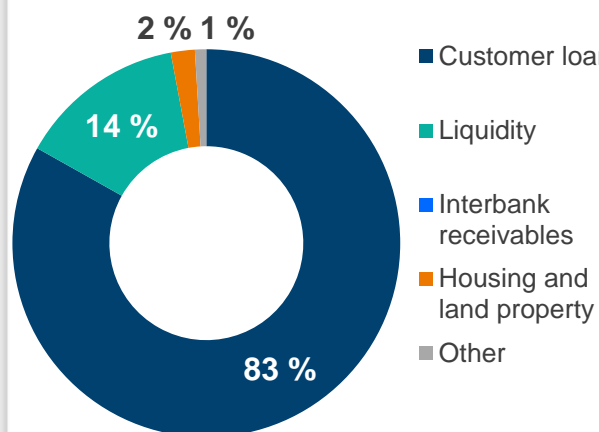
Unaudited release



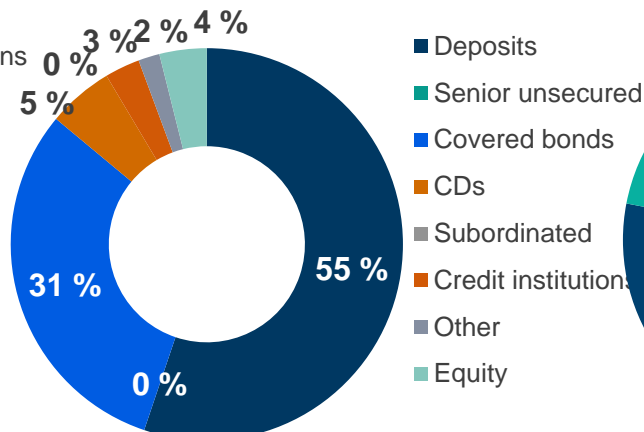
Strong Balance Sheet



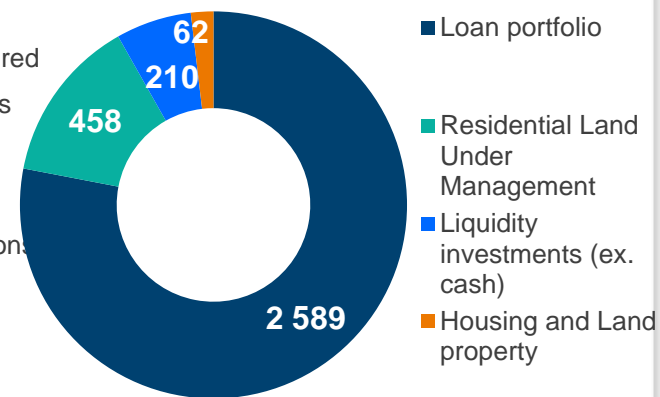
Total Assets



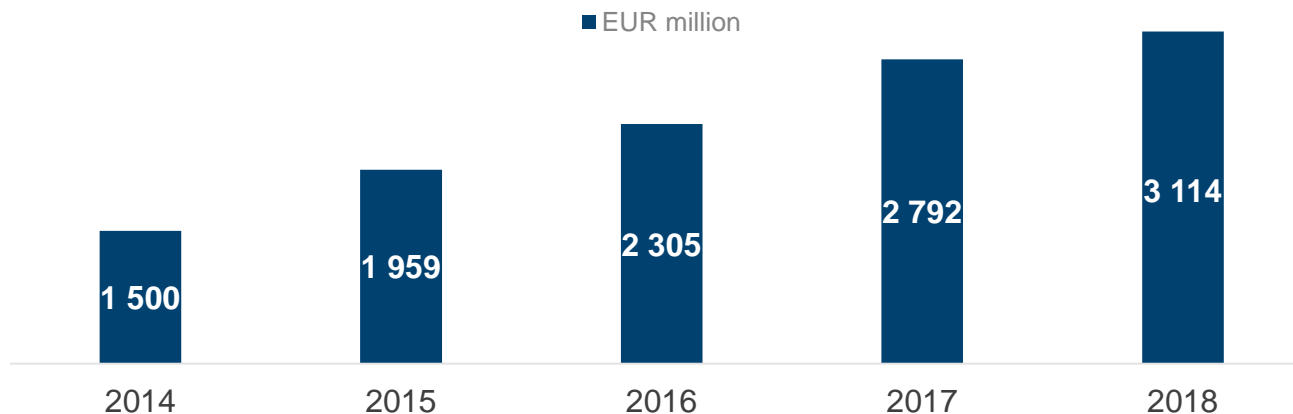
Liabilities and Equity



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



Hypo Group Balance Sheet Total

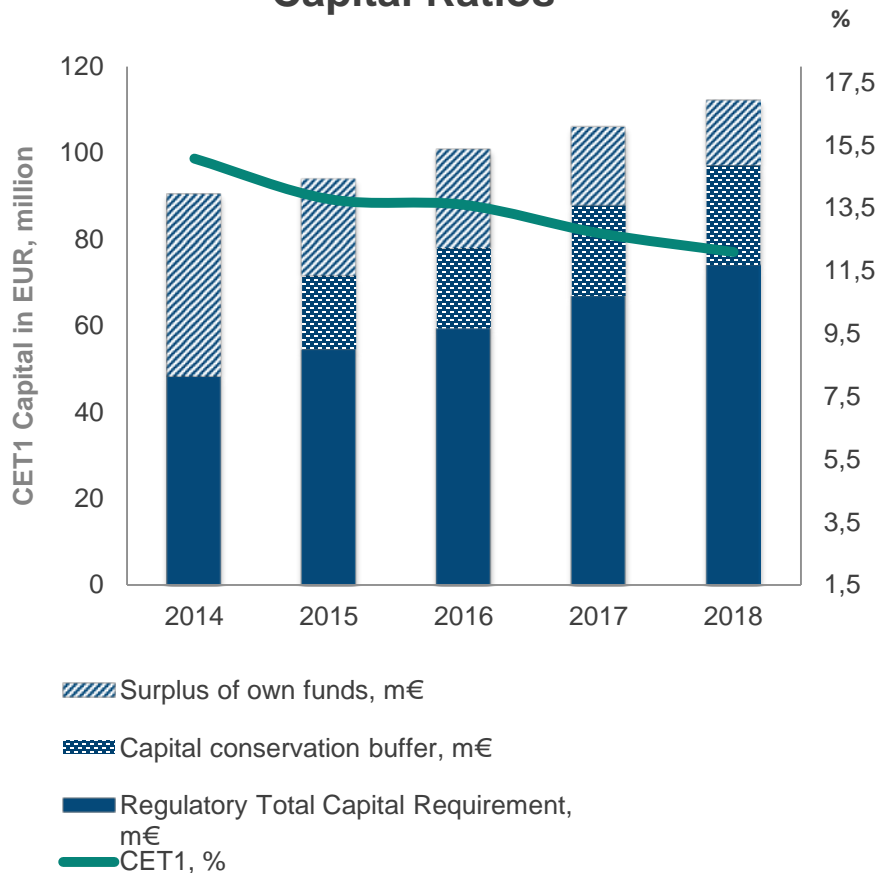


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Solid Capital Basel III Standard Approach



Capital Ratios

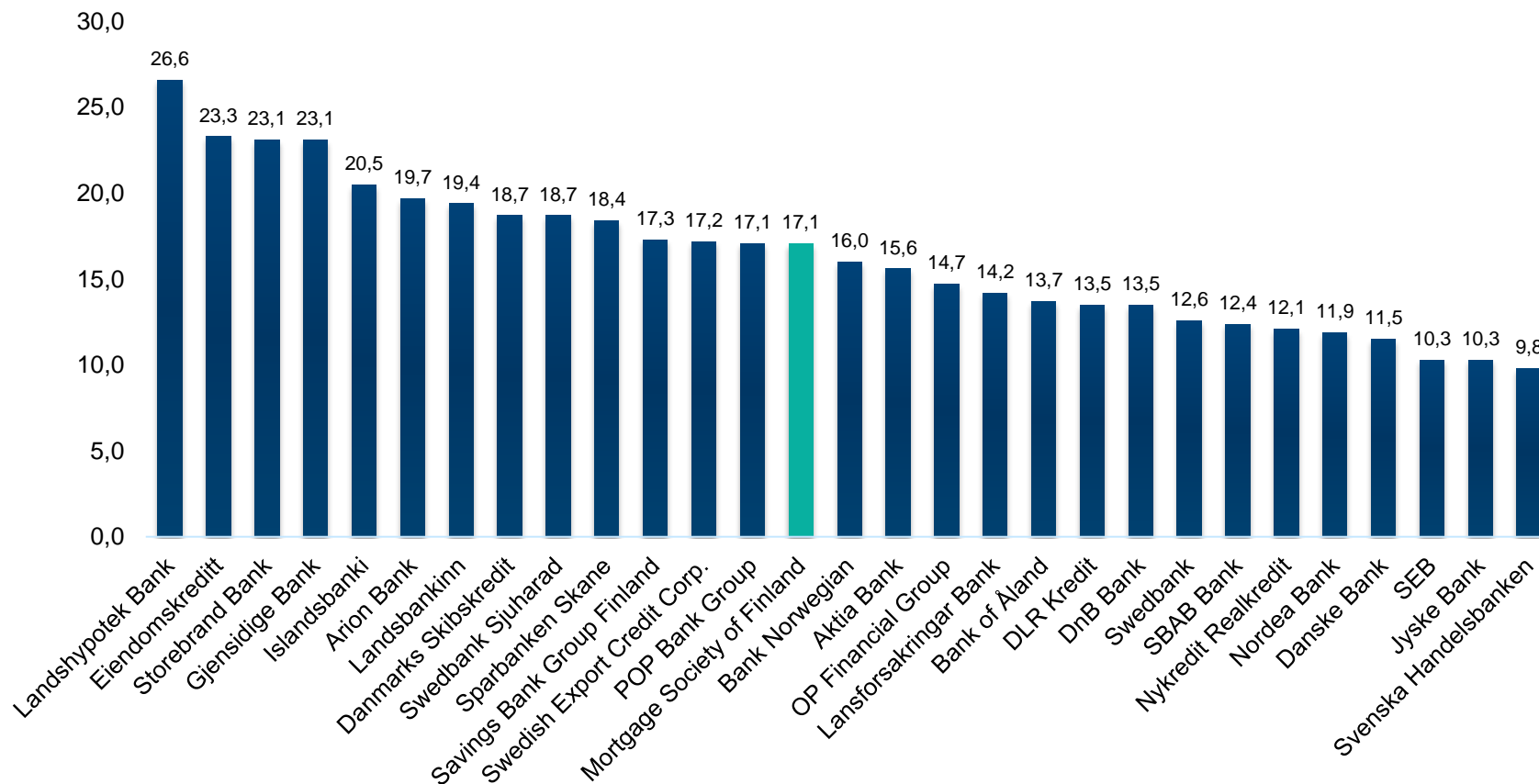


- Mutual company: all profits retained and added to the core capital
- Common Equity Tier 1 12.1%
- S&P's Risk Adjusted Capital 16.2% on 30.6.2018
 - Markedly higher than Finnish peers applying internal methods
- EUR 15.2 million of excess capital after
 - 8.0% Regulatory TC requirement
 - 2.5% Capital Conservation Buffer
- EUR 5.1 million of hidden reserves in housing property (not marked-to-market) and EUR 5.3 million of surplus in Pension Fund
 - Inclusion into CET1 would raise the ratio to 13.0%
- Basel III standardized approach risk weights
 - Lending with residential collateral: 35% risk weight
 - Housing and land investments: 100% risk weight

S&P Risk Adjusted Capital 'Very Strong' Score for Hypo



S&P's Nordic RAC Ratios 31.12.2017

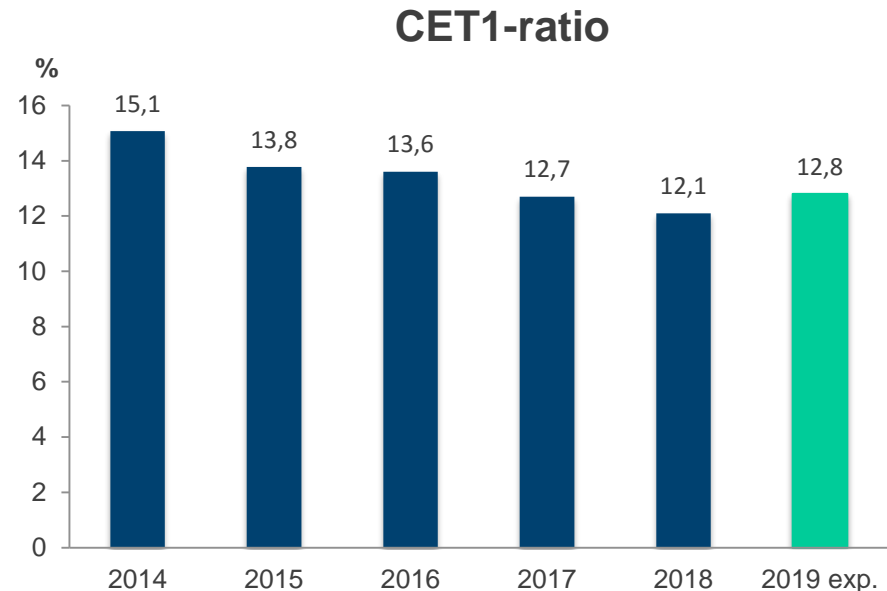


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Capitalization expected to return to strengthening path



- After multiple years of double digit growth of the loan portfolio, the growth rate will be slowed down
 - Expected growth rate 2019 +2-3%
- Slower growth together with the expected profit level for 2019 will strengthen the CET1-ratio
 - Hypo estimates CET1 to be 12.8% at year end 2019



Group Income Statement



(EUR 1 000)	4Q2018	4Q2017	2018	2017
Net Interest Income	3 350	2 712	12 331	8 991
Net Fee and Commission Income	886	834	3 795	3 525
Total Other Income	-278	1 142	2 097	5 190
Total expenses	- 2 745	- 2 946	- 11 058	- 11 055
Operating Profit	1 214	1 742	7 165	6 651

- Net Interest Income continued to grow to EUR 12.3 million (EUR 9.0 million for January-December 2017) due to loan portfolio growth and lower funding costs.
- Hypo Group's operating profit was EUR 7.2 million (EUR 6.7 million).
- Net Fee and Commission Income totaled EUR 3.8 million (EUR 3.5 million).
- Total other income (incl. treasury operations and housing and residential land) amounted to EUR 2.1 million (EUR 5.2 million).
- Total expenses totaled EUR 11.1 million (EUR 11.1 million).

Group Key Financial Figures



	4Q2018	4Q2017	2018	2017
Return on Equity (%)	3.5	5.0	5.0	4.9
Common Equity Tier 1 ratio (%)	12.1	12.7	12.1	12.7
Cost-to-income ratio (%)	69.4	62.6	60.6	62.5
Non-performing assets (%)	0.07	0.14	0.07	0.14
Loan-to-value ratio (%)	35.8	37.4	35.8	37.4
Loans-to-deposits (%)	150.7	143.6	150.7	143.6
Loan portfolio total (m€)	2 589	2 213	2 589	2 213
Balance sheet total (m€)	3 114	2 792	3 114	2 792

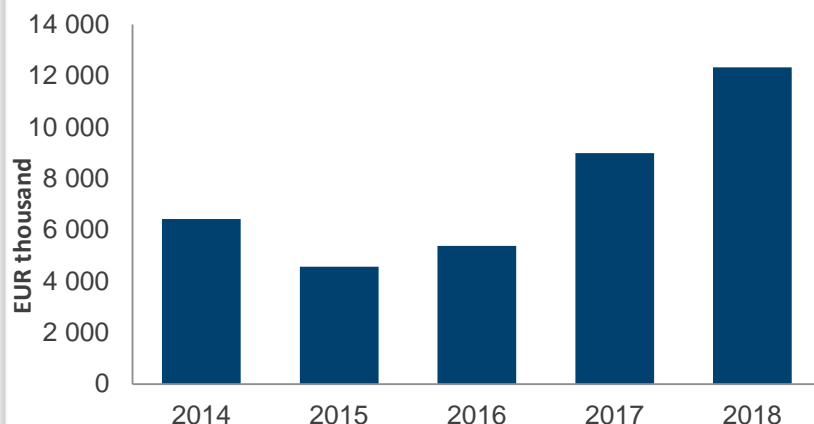
- The contribution to the Financial Stability Authority, recognized in full during the first half year, increased total costs despite the cut of operating costs by 3.5 % compared to the previous year.
- Total assets increased to EUR 3.1 billion and loan portfolio grew to EUR 2.6 billion.
- CET1 ratio decreased to 12.1% and the amount of equity increased to EUR 121.4 million
- Group's financial position remained stable throughout the period

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Net Interest Income Increases Despite Low Interest Rate Environment

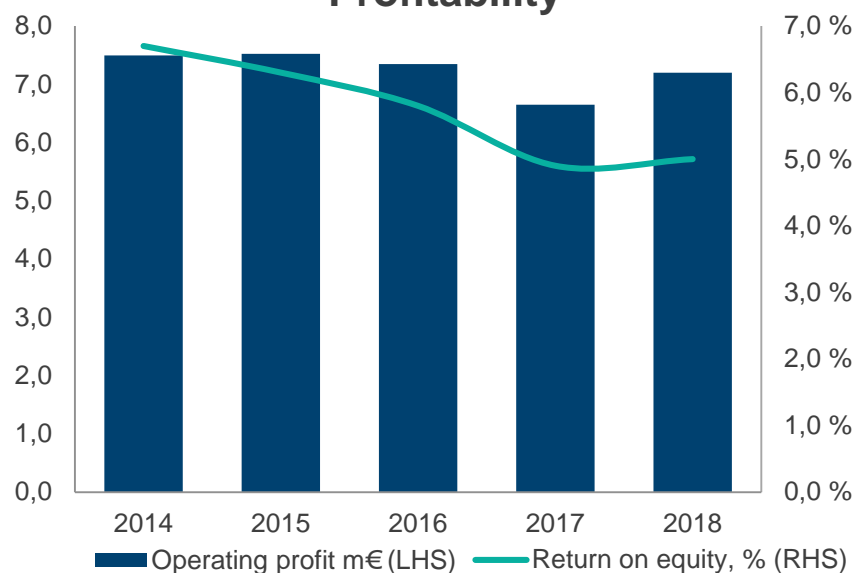


Net Interest Income

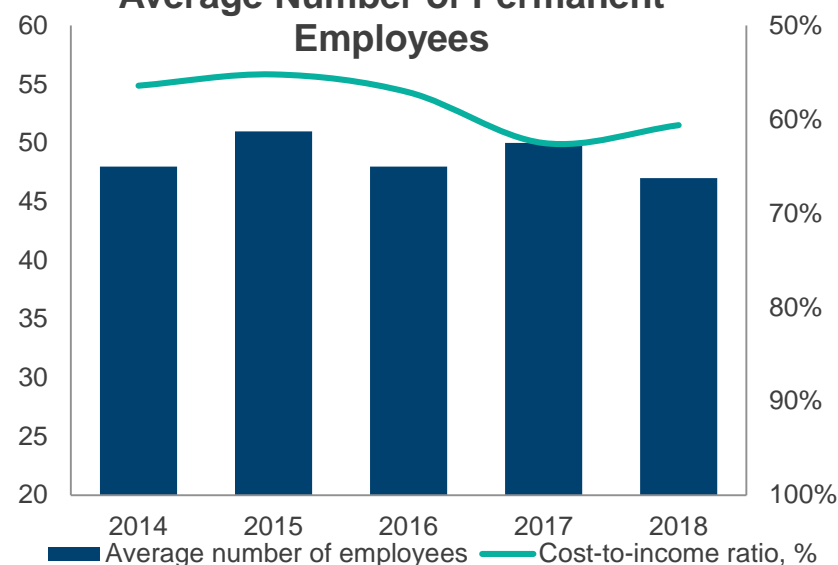


- Net interest income continued to grow to EUR 12.3 million (EUR 9.0 million) due to loan portfolio growth and lower funding costs.
- Operating profit was EUR 7.2 million (EUR 6.7 million for January–December 2017)
- Cost-to-income ratio 60.6 % (62.5 %)

Profitability



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



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Hypo's Loan Book

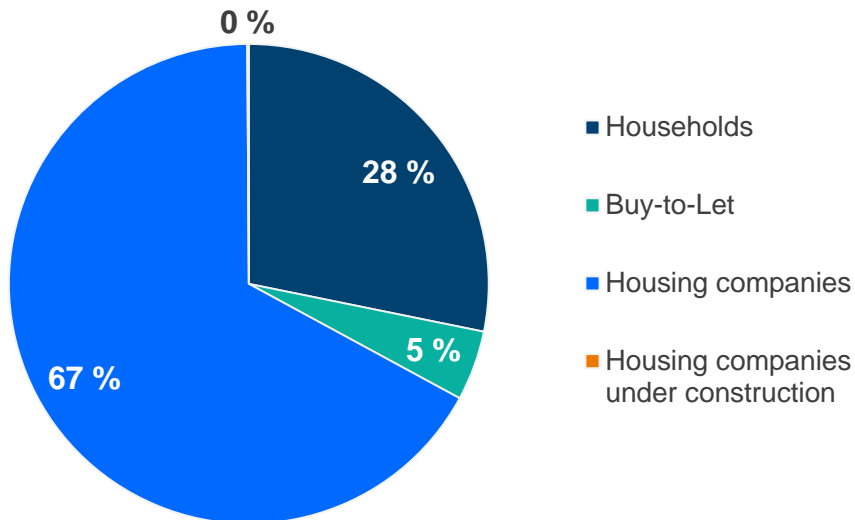


Loan Book Overview

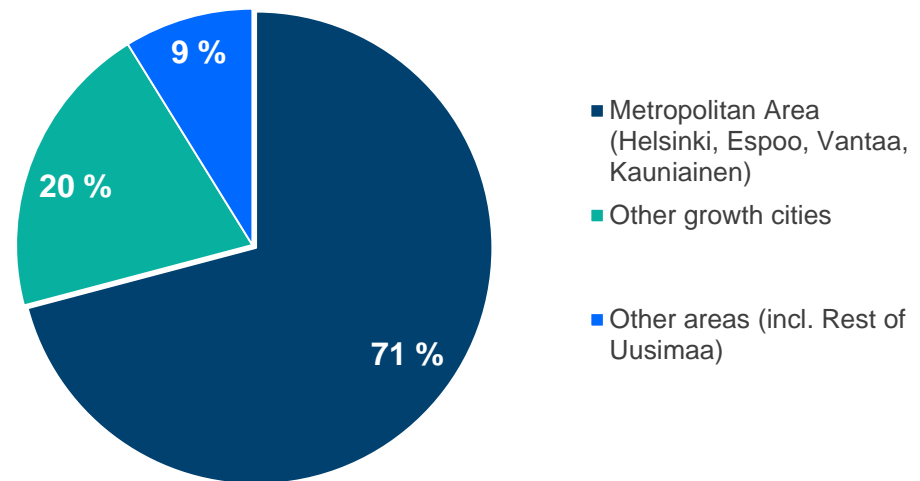


- Mortgage loans secured by residential property
- Collateral requirement is set in the Finnish Act on Mortgage Societies
- Two main customer groups
 1. Households: home mortgage, buy-to-let
 2. Housing companies: renovation loans, construction phase loans

Lending by Customer Type



Loan Book by Customer Domicile

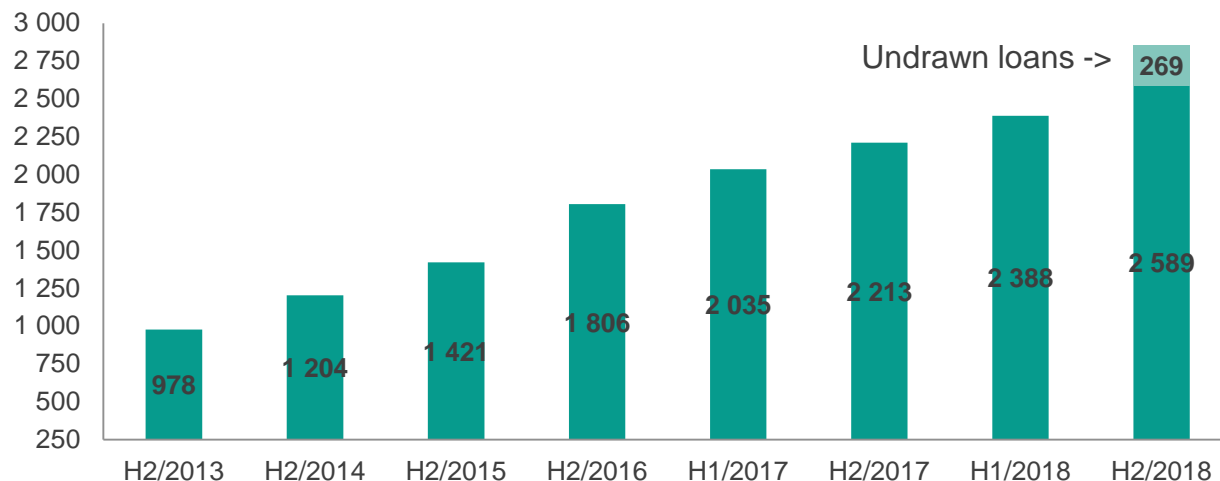


SECURE WAY FOR BETTER LIVING.

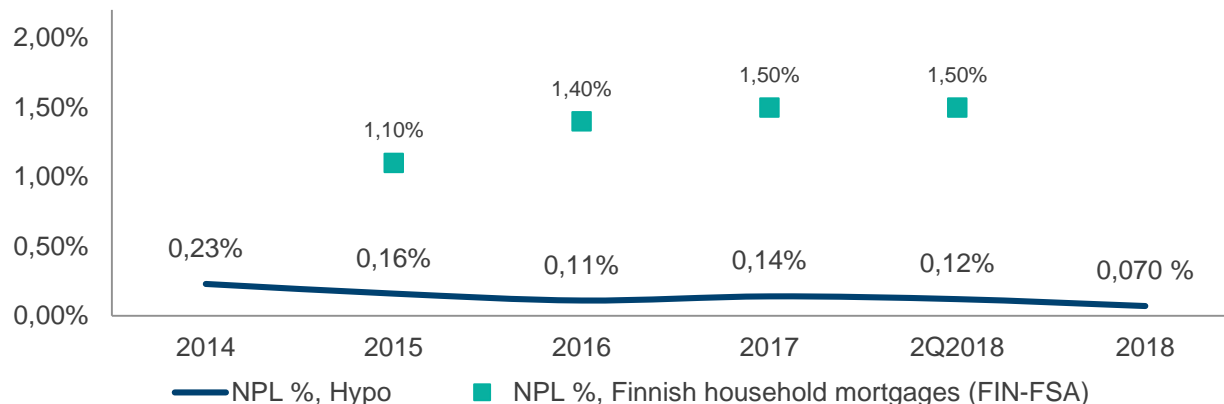
Loan Book Growing Steadily



Hypo Loan Book Total, m€



Non-performing Loans (%)



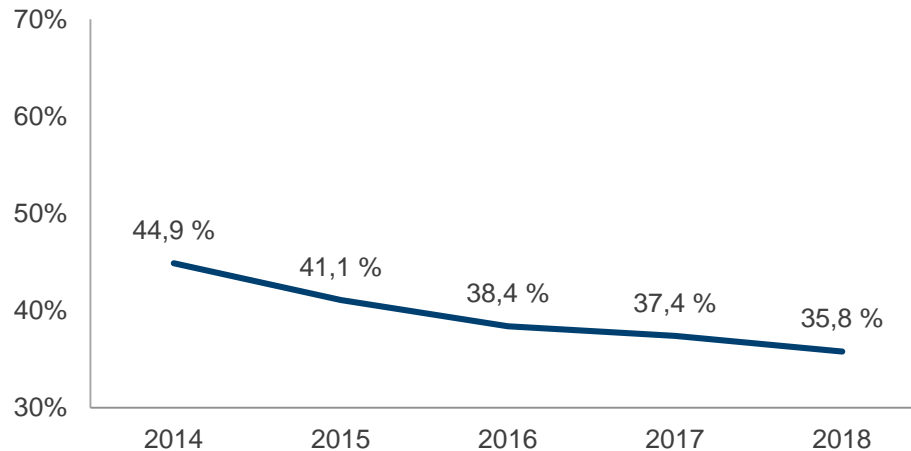
- Hypo's loan book grew to EUR 2 589 million with annual growth of almost 20%
- Currently EUR 269 million undrawn loans
- All lending is against residential collateral
- Only EUR denominated lending
- All collateral is located in Finland
- Strategic concentration in the Helsinki Metropolitan Area and other specified growth areas
- Non-performing loans remained very low at 0.07% of total loans
- The quality of the loan book well above the Finnish household mortgage average NPLs.

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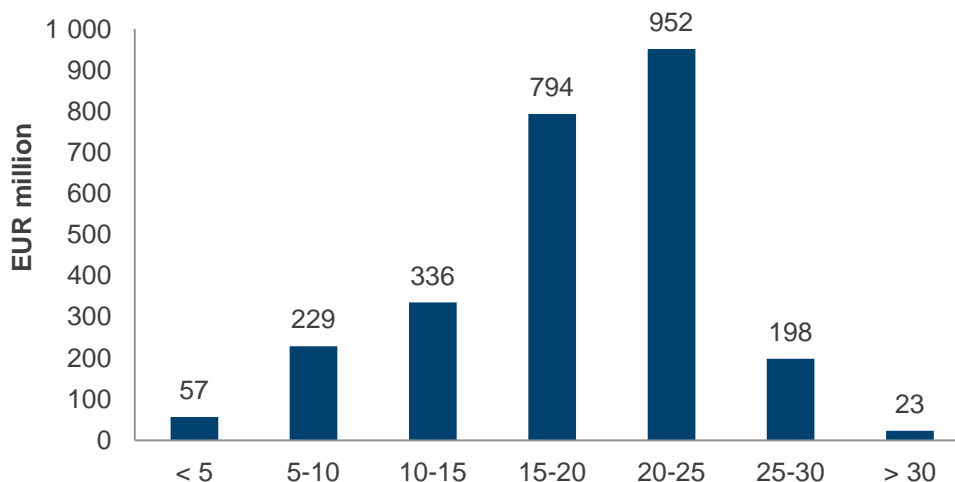
Loan Book Quality Excellent



Hypo Loan Book Average LTV



Loan Book by Remaining Maturity (years)



- Hypo's loan portfolio is entirely secured by residential property
- The average LTV (loan-to-value) stable at 35.8 %
- Around 99% of the loans are amortizing and 1% bullets
- >90% of loan book is risk weighted at 35% or lower
- The average maturity of a loan at the time of withdrawal is 18 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

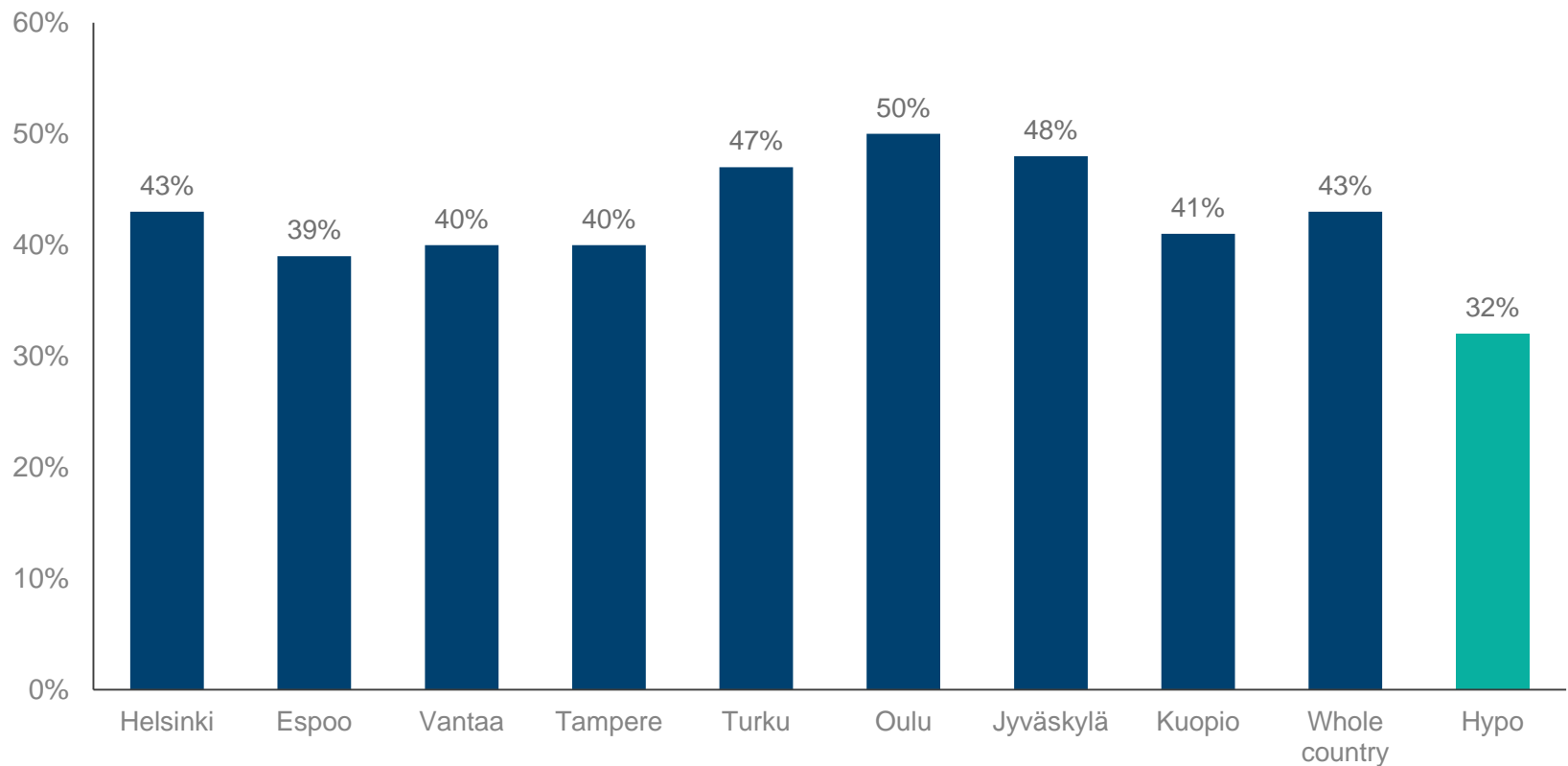
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Housing Investor Exposure in Hypo's Loan Book



- FIN FSA has given a recommendation to analyse the ownership structure in housing company lending more closely
 - Closer analysis of housing company ownership granularity and investor exposure at origination
 - Monitoring changes in ownership structure during the life span of the loan
- Weighted average investor exposure in Hypo's housing company loan book is 41.7% (conservative method of calculation: number of apartments owned by non-residents per total number of apartments, and weighted by the amount of loan granted to the housing company)
 - Weighted average LTV of housing company loans in Hypo loan book is 23.9%
- In addition, 4.98% of Hypo's total loan book has been granted directly to investment purposes
 - Average current maturity of an investor loan 14.5 years
 - Average current size of an investor loan 165 500 euros
 - Loan to value in investor loans typically 50-70%
 - Investor exposure in new sales in 2018 1%
 - No investor borrowers with poor internal credit class
- Total housing investor exposure in Hypo's loan book is max 32 %
- Goal well below 30% by the end of 2019

Housing Investor Exposure in Finland



Source: Hypo, Statistics Finland

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Funding and Liquidity



Funding Strategy



- Covered bond program inaugurated in 2016
 - Issuer is the group parent, no separate entity
 - Larger issues (>250 million) LCR level 2A eligible
- All Hypo's bonds are
 - listed on the NASDAQ Helsinki Oy trading list
 - issued under Finnish legislation and Domestic programs
- Deposit funding collected through 100% subsidiary bank "Suomen AsuntoHypoPankki"
- Other funding sources
 - Domestic Commercial Deposit program
 - ECB repo counterparty
 - Bilateral loans (e.g. NIB green funding cooperation)

Outstanding Issues as of 31.12.2018 (nominal amount issued)

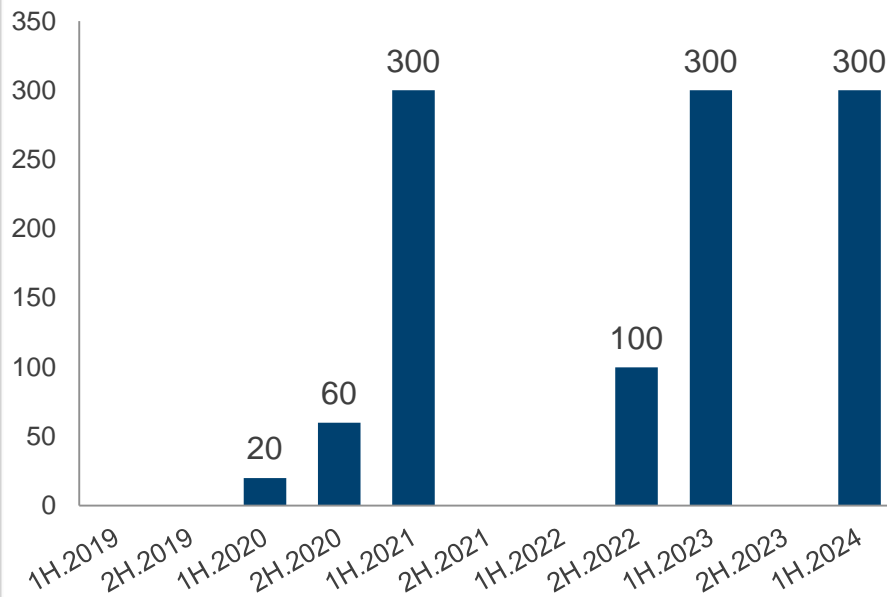
ISIN	Issue Date	Maturity Date	Type	Nominal Issued (m€)	Coupon / pricing
FI4000206966	10.5.2016	10.5.2021	Covered	250	Fixed +0.25 (MS +22)
FI4000206966 (tap)	27.9.2016	10.5.2021	Covered	50	Fixed +0.25 (MS +10)
FI4000232855	7.12.2016	7.12.2022	Covered	100	Fixed +0.25 (MS +11)
FI4000266903	28.6.2017	28.6.2024	Covered	250	Fixed +0.375 (MS +9)
FI4000266903 (tap)	25.10.2017	28.6.2024	Covered	50	Fixed +0.375 (MS +4)
FI4000315841	24.4.2018	24.4.2023	Covered	250	Fixed +0.375 (MS +6)
FI4000315841 (tap)	14.11.2018	24.4.2023	Covered	50	Fixed +0.375 (MS +9)

Diversified Funding Profile

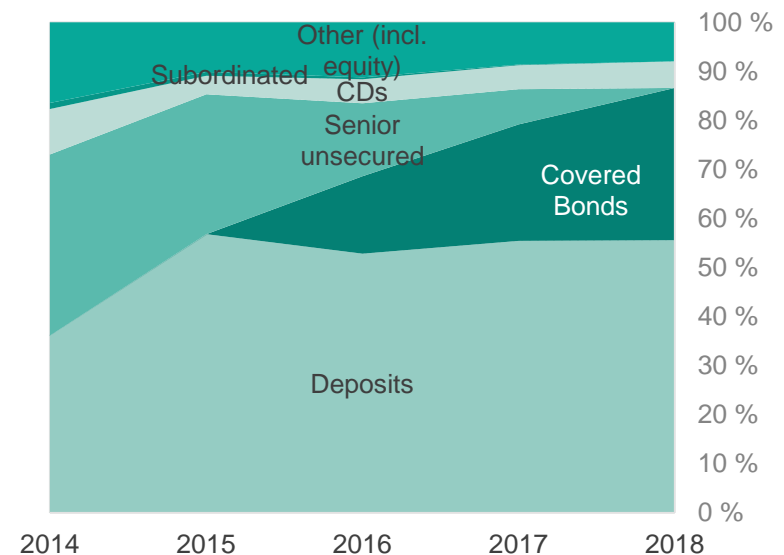


- Deposits through the AsuntoHypoPankki subsidiary form currently ~55% of total funding
- Covered bonds currently ~30% of total funding
- Domestic CD program supports short term funding needs

Wholesale Funding Maturity Profile



Funding Structure



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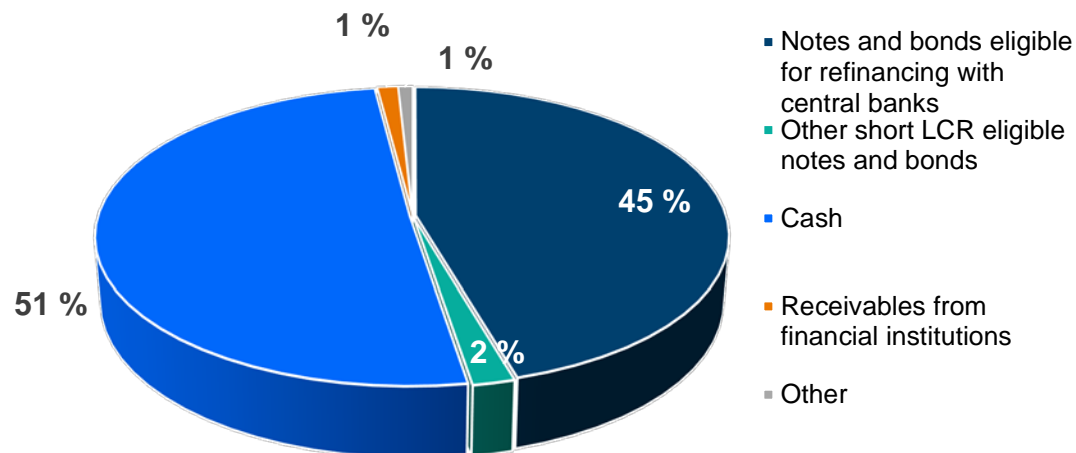
Solid Liquidity Position



Liquidity portfolio EUR 442.4 million as of 31.12.2018

- Equaling 14.2 % of total assets
- Conservative investment policy
 - 95.4 % of debt securities invested in at least 'AA-' rated instruments
 - 95.9 % of debt securities are ECB repo eligible
- Only EUR denominated exposure
- Hypo's domestic MTN and CD programs support liquidity
- LCR 122.6 % (147.6 % ye2017)
- Liquidity covers wholesale funding cash flows for the following 31 months.

Liquidity Portfolio



SECURE WAY FOR BETTER LIVING.

Covered Bonds

Overview



Hypo Covered Bonds

Executive Summary as at 31.12.2018

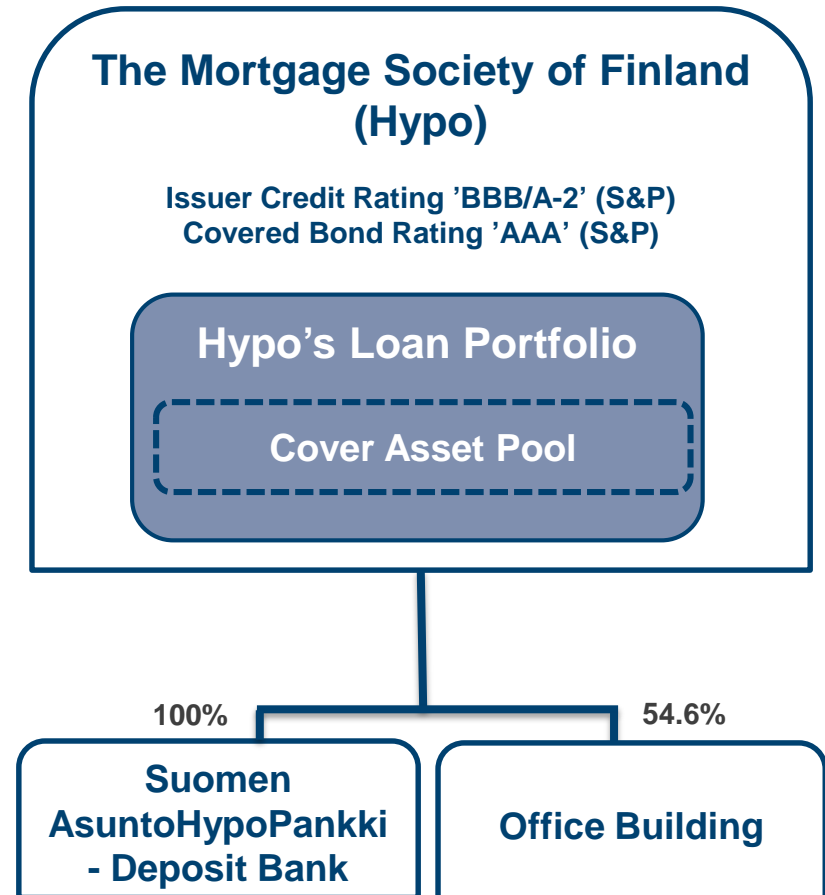


- Issuer is the Group parent, no separate covered bond issuer
- Total amount outstanding EUR 1 000 million
 - EUR 300 million, Maturity Date May 10, 2021 with 1 year soft-bullet structure
 - EUR 100 million, Maturity Date Dec. 7, 2022 with 1 year soft-bullet structure
 - EUR 300 million, Maturity Date June 28, 2024 with 1 year soft-bullet structure
 - EUR 300 million, Maturity Date April 24, 2023 with 1 year soft-bullet structure
- Covered bonds rated 'AAA' (st.) by the S&P
- Cover pool consists 100% of Finnish residential property collateral
 - Regulatory risk weight of the pool assets is 35% (Basel III standard method)
 - All collateral located in selected prime growth centers
- Current WALTV 31.6%
- Current nominal overcollateralization 29.0%
 - Commitment to keep the OC all times at a level commensurate with a 'AAA' rating from S&P Global Ratings
 - Legally binding OC requirement: 2% of the net present value
- Hedging agreements in place to mitigate the interest rate risk
- Hypo is a member of ECBC

Simple Structure, High Transparency



- Covered bonds issued directly from Hypo's balance sheet
 - Issuer the group parent Hypo
 - No separate covered bond entity
 - The assets are segregated by the covered bond register
- Issuer Credit Rating 'BBB/A-2' (st.)
- Covered Bond Rating 'AAA' (st.)



Cover Asset Pool



Eligibility Criteria for the Cover Pool



Origination	<ul style="list-style-type: none">▪ Issuer the Mortgage Society of Finland (Hypo)▪ Only mortgage loans originated by Hypo
Assets Categories	<ul style="list-style-type: none">▪ 100% Finnish residential assets<ul style="list-style-type: none">▪ Retail mortgages▪ Housing company residential mortgages (common debt between multiple individuals)
Customer Credit Quality	<ul style="list-style-type: none">▪ No arrears (>30 days)▪ No negative credit history▪ Over 70% of the pool loans have the best internal credit class 'A'
Collateral	<ul style="list-style-type: none">▪ Maximum LTV limit 70%▪ Current Pool WALTV 31.6%▪ Finnish residential collateral, located in prime growth centers▪ Collateral valuations updated quarterly▪ Commitment to keep OC all times at the level commensurate with S&P rating 'AAA'
Type of Properties	<ul style="list-style-type: none">▪ Primary residences▪ Limited liability housing companies (multiple individuals)
Type of Products	<ul style="list-style-type: none">▪ Principal repayment mortgages<ul style="list-style-type: none">▪ 99% floating interest rate▪ No revolving/flexible loans

SECURE WAY FOR BETTER LIVING.

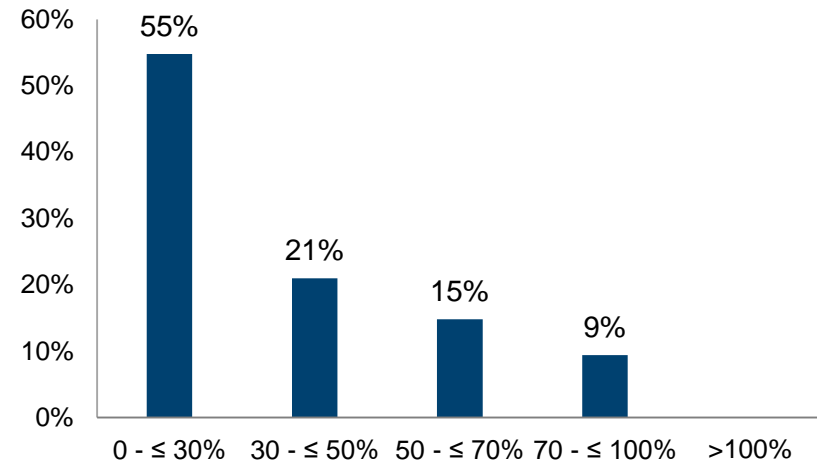
Cover Asset Pool Data (1/3)



Pool Data as at 31.12.2018

Total Cover Pool (nominal)	EUR 1 290 087 863
Eligible Cover Pool	EUR 1 276 976 108
Average Loan Balance	EUR 201 481
Number of loans	6 403
Number of properties	5 231
Number of clients	6 101
WA seasoning (months)	41
WA remaining term (months)	226
WA LTV (indexed)	31.1%
WA LTV total (indexed)	31.6%
Interest	Variable 99% Fixed 1%
Loans in arrears (>30 days)	0.00%
OC level (nominal)	29.0%
OC level (eligible)	27.7%
Pool Type	Dynamic

LTV Distribution

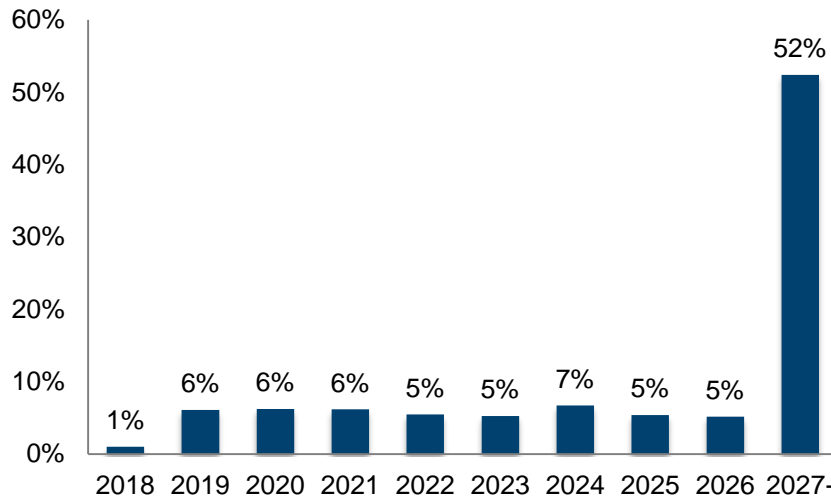


- The weighted average indexed LTV of the pool is 31.6%
- No non-performing loans in the cover pool
- No arrears
- Well-seasoned mortgage cover pool

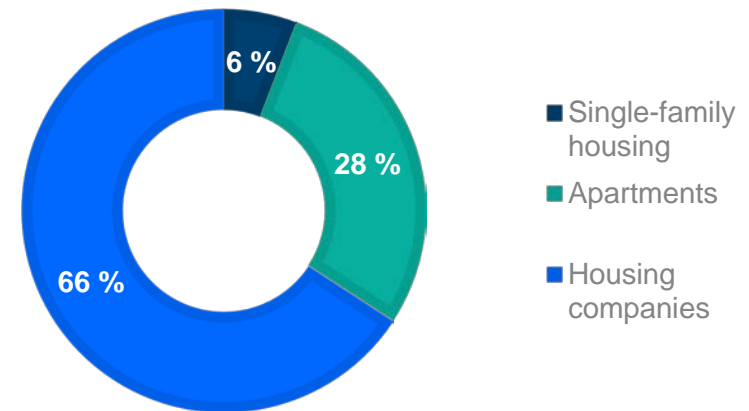
Cover Asset Pool Data (2/3)



Pool Loan Maturity Profile Contractual Amortizations



Pool Collateral Types



- Balanced pool composition: 34% of retail mortgages and 66% of housing company residential mortgages
- All loans with contractual repayment schedule
- Stable amortization profile
- No public sector loans in the pool
- Currently no substitute assets in the pool

SECURE WAY FOR BETTER LIVING.

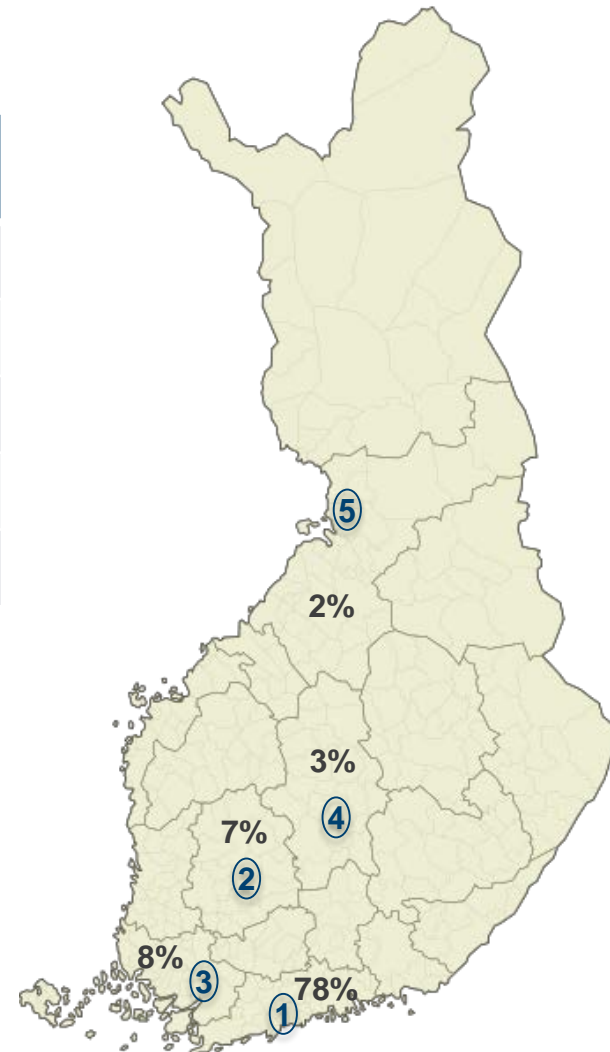
Cover Asset Pool Data (3/3)



Geographical Distribution as at 31.12.2018

	Region	Major City	Share of the Pool
1	Uusimaa	Helsinki	78%
2	Pirkanmaa	Tampere	7%
3	Varsinais-Suomi	Turku	8%
4	Central Finland	Jyväskylä	3%
5	North Ostrobothnia	Oulu	2%

Hypo's strategic choice is to operate only in prime growth centers.

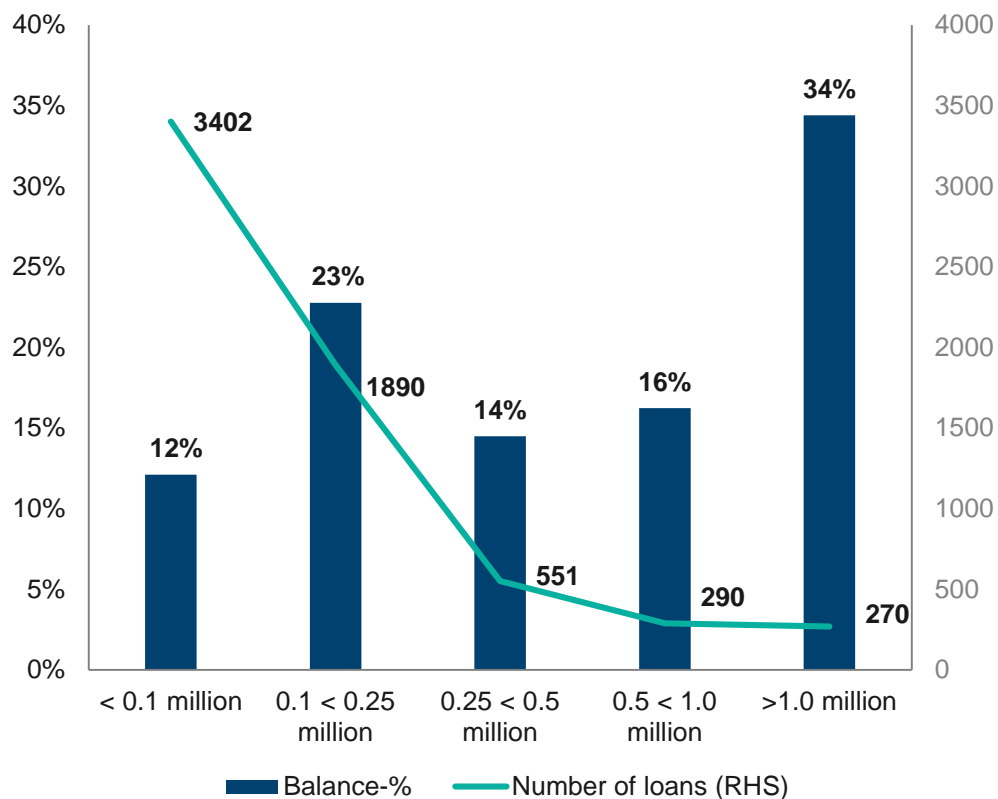


SECURE WAY FOR BETTER LIVING.

Cover Pool Loan Size Distribution



Loan Size Distribution: Share and Number of Loans



- 35% of loans in the pool have remaining balance below EUR 250,000.
- Loans with remaining balance > 1 million are housing company loans (= common debt between multiple individuals)
- Loans with remaining balance > 3 million excluded from the cover pool
- Loans with remaining balance < 5,000 excluded from the cover pool

Cover Asset Pool Stress Test



Pool Resilient to House Price Decline

LTV	House price decline 0%	House price decline 10%	House price decline 20%	House price decline 30%	House price decline 40%
0- ≤ 40%	872	813	750	670	575
40- ≤ 70%	297	291	283	301	327
70- ≤100%	122	177	212	197	173
>100%		9	46	122	216
Pool total (nominal), EUR million	1 290	1 281	1 244	1 169	1074
OC (nominal)	29.0%	28.1%	24.4%	16.9%	7.4%

- The stress test assumes that no action is taken to include new loans into the pool.
- Even in an extreme stress scenario, where house prices decline by 40% overnight, the pool total still exceeds EUR 1 000 million (the total outstanding amount of bonds).

Contemplated Transaction



Indicative Terms and Conditions

Issuer	The Mortgage Society of Finland (Suomen Hypoteekkiyhdistys)
Expected Rating	'AAA' (st.) by S&P Global Ratings
Status	Covered
Amount	EUR 300 million
Expected LCR Eligibility	Level 2A
Maturity	7 years, soft-bullet
Coupon	Fixed
Coupon payments	Annual
Documentation	Domestic MTN Programme, Finnish Law
Clearing	Euroclear Finland
Listing	Nasdaq Helsinki
Denominations	EUR 100,000 + 100,000
Lead Managers / Bookrunners	Danske Bank, DZ BANK and Swedbank
Target Market	Eligible Counterparties and Professional Clients (as defined in Directive 2014/65/EU)



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