

# Hypo Investor Update

Debt Investor Presentation



February-March 2024



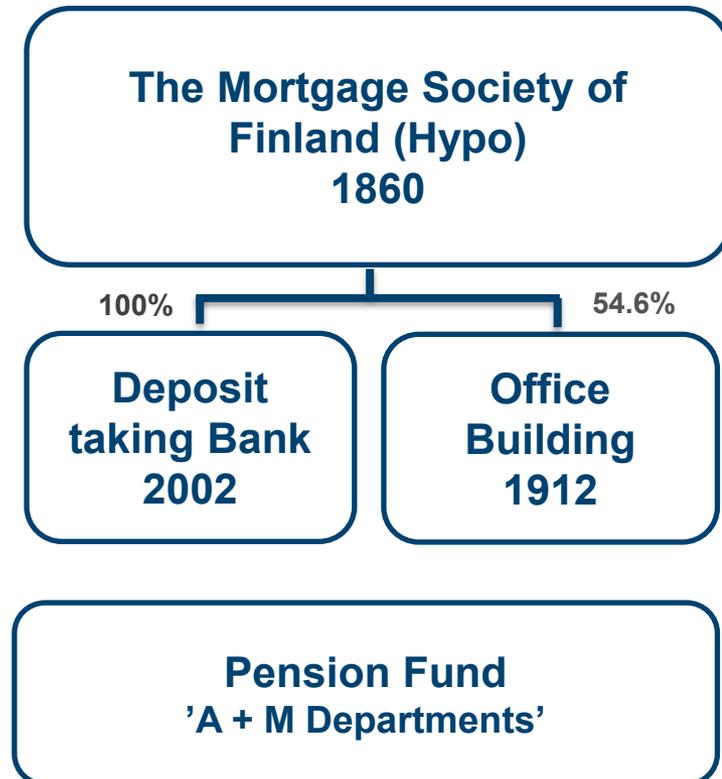
**HYPO**

**Secure Way for Better Living**

# Hypo Group Overview



- Founded in 1860
  - The oldest private credit institution in Finland
- Mutual company governed by the member customers
  - All returns are kept within Hypo
- Retail banking, no corporate lending
- Specialised in mortgage financing
- Residential property always as collateral
- Strong loan book - NPLs 0.19% (as at 4Q23)
- Total assets EUR 3.6 billion (as at 4Q23)
- Established and regular issuer in Finland
- S&P issuer rating 'BBB/A-2' (stable)
- S&P covered bond ratings 'AAA' (stable)
- Supervised by the FIN-FSA



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



## Anchor Rating for Finnish Commercial Banks

a-

### 1. Hypo business position

-2

- Monoline profile as a pure residential mortgage financier in Finland
- Expectation of ongoing business stability given selective business underwriting partly offsets concentrated business profile
- Well positioned to resume loan growth and improve operating efficiency

### 2. Hypo capital and earnings

+2

- Very strong risk-adjusted capitalization (RAC)
- Profit retention as a Mutual company, profits solely used for capital build-up

### 3. Hypo risk position

-1

- Strong asset quality and exceptional decades-long loan-loss track record
- Very conservative lending and underwriting standards with a focus on urban areas
- Concentration and cyclical risk in the lending book

### 4. Hypo liquidity and funding

-1

- Issuance of covered bonds improves funding maturity and leads to a well-matched funding profile
- Less stable deposit base and higher share of wholesale funding than domestic peers'

## Hypo Credit Rating

**BBB (stable)**

# Hypo Leading the Debate on Finnish Mortgage Market



Hypon Ari Pauna täräyttää ja puhuu pakosta: "Pankkien ja kuntien määristä ainakin nolla pois"

15.4.2021 04:30 PANKIT FINANSSI TILINPÄÄTÖS



Taloyhtiöiden maineet  
harmittaa asuntorakentamista

yle Uutiset Areena Urheilu Valikko

Uutiset Tuoreimmat Eduskuntavaalit Venäjän hyökkäys

Talous

**Hypo: Asuntojen hinnat laskevat vuonna enemmän kuin 25 vuodelistassamme, minkälaiset asunnot**

**penevät eniten ja missä arvo säilyy**

Asuntojen hinnat ovat nousseet muita asuntoja nopeammin miltei kahden vuoden ajan. Nyt yksioiden hintoihin on osunut voimakas

**Hypo: Venäjän hyökkäys Ukrainaan aiheuttamassa rakentamisen äkkikäännöksen – "Tässä voi tulla yllättävän voimakas lasku"**

Hypon asuntomarkkinoihin keskittyvän ekonomisti Juho Keskisen mukaan myönnettyjen rakennuslupien aiempaa alemmasta määrästä voi päätellä, että asuntorakentamisessa "ollaan paussilla", kun hinnat ovat nousussa. Ukrainan sota voi voimistaa kehitystä.

Talous | Asuntomarkkinat

**Hypo: Asuntojen hintoihin tulossa poikkeuksellinen käänne, yhtä rajua laskua viimeksi vuonna 1995**

Helsingin seudulla asuntojen hinnat laskevat ensi vuonna prosenttia, ennustaa Hypo. Käänne on lyhytaikainen, jos työmarkkinat eivät hyydy.



"Sijoittajien talvihorros tarjoaa nyt hyviä hintaneuvottelun paikkoja pienten kotien etsijöille", toteaa Hypon ekonomisti Juho Keskinen. KUVA: JOONAS SALO

Laura Kukkonen HS  
18.11.2022 0:01 | Päivitetty 18.11.2022 8:38

Talous | Asuntomarkkinat

**Hypo: Markkinoille syntynyt kauppa jumittava kannustinloukku**

Hypon arvion mukaan korkojen voimakkaasta noususta syntynyt kannustinloukku koskettaa peräti miljoonaa suomalaista.



Hypoteekkiyhdistyksen toimitusjohtaja Ari Paunan mukaan julkinen talous kärsii asumisen tukien kasvusta. KUVA: JUSSI NUKARI / LEHTIKUVA, SEPPO KÄRKI / IS

**Kasvua: "Edessä kesä, areilla ja baarien la-**

**Hypo asetti kunnille riskiluokituksen – luokitus voi vaikuttaa asuntosi arvoon ja lainaneuvotteluihin**

Tulvariski uhkaa joka sadannen asunnon arvoa. Toistaiseksi riskiä ei hinnoitella asuntojen arvoon, mutta Hypon ekonomistin mukaan yksikin ääri-ilmiö voi aiheuttaa dominoefektin.



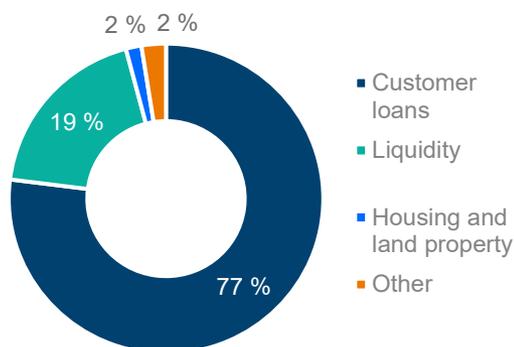
# Financial Results



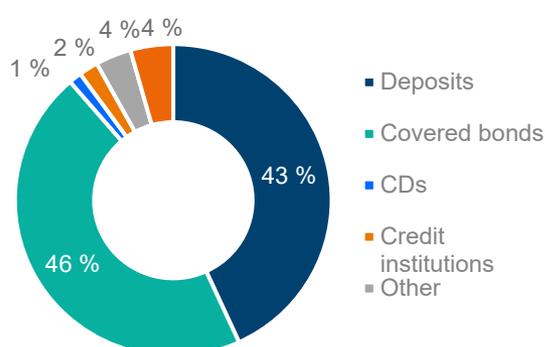
# Strong Balance Sheet



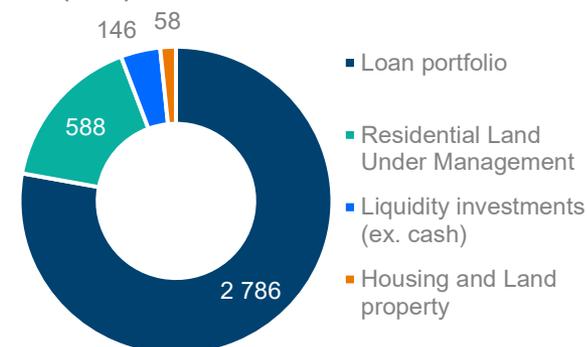
### Total Assets



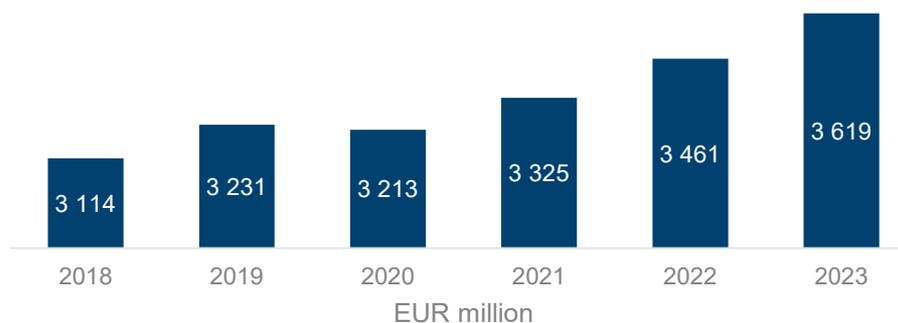
### Liabilities and Equity



### Revenue generating assets (m€), on and off balance sheet



### Balance Sheet Total

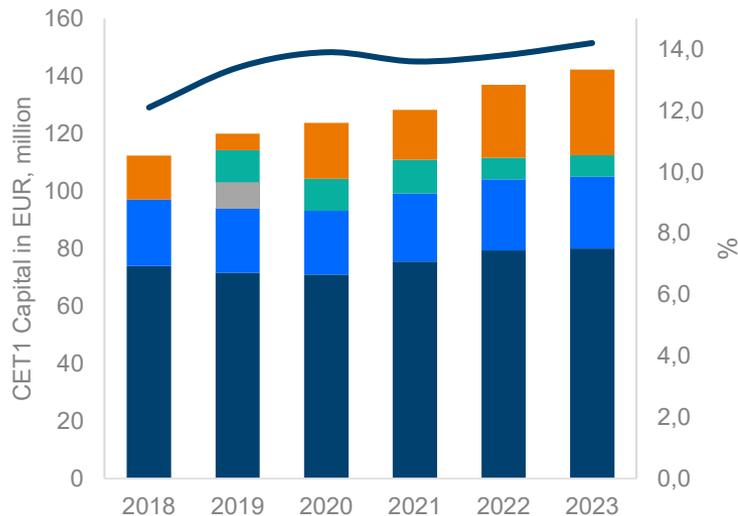


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# Solid Capital Basel III Standard Approach



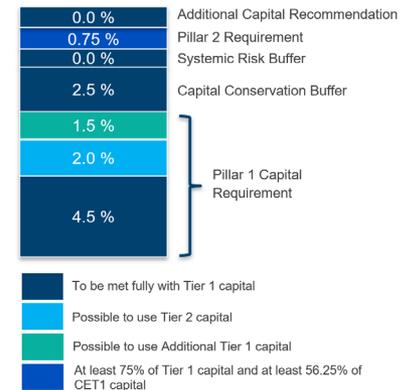
Capitalisation



- Surplus of Own Funds, m€ (left axis)
- Pillar 2 Requirement, m€ (left axis)
- Systemic Risk Buffer, m€ (left axis)
- Capital Conservation Buffer, m€ (left axis)
- Pillar 1 Requirement, m€ (left axis)
- CET1, % (right axis)

- Mutual company: all profits are retained and added to the core capital
- S&P's Risk Adjusted Capital 18.0% on 31.12.2022
- Total Capital Ratio 14.2%, all CET1 (as at 4Q2023)
- EUR 30 million of excess capital after

Pillar 1 Capital Requirement	8.00%
Capital Conservation Buffer	2.50%
Systemic Risk Buffer	0.00%
<ul style="list-style-type: none"> <li>• 1% from 1.4.2024 onwards</li> </ul>	
Pillar 2 Requirement	0.75%
Additional Capital Recommendation	0.00%
<ul style="list-style-type: none"> <li>• 0.75% from 31.3.2024 onwards</li> </ul>	
<b>→ Total Capital Requirement</b>	<b>11.25%</b>



- EUR 4.6 million of hidden reserves in housing property (not marked-to-market) and EUR 6.9 million of surplus in Pension Fund
  - Inclusion into CET1 would raise the ratio to 15.1%
- Basel III standardized approach risk weights
  - Lending with residential collateral: 35% risk weight
  - Housing and land investments: 100% risk weight

# Group Key Financial Figures FY2023



## GROUP'S KEY FIGURES

(1,000 €)

	1-12/2023	1-12/2022	10-12/2023	10-12/2022
Net interest income	18,204	15,264	5,007	1,552
Net fee and commission income	4,697	3,592	1,172	880
Total other income	2,106	5,766	-559	1,067
Total expenses	-16,504	-17,543	-4,465	-3,098
Operating profit	8,503	7,079	1,156	402
Receivables from the public and public sector entities	2,785,973	2,754,008	2,785,973	2,754,008
Deposits	1,562,999	1,466,671	1,562,999	1,466,671
Balance sheet total	3,619,094	3,461,004	3,619,094	3,461,004
Return on equity (ROE) %	4.5	4.0	2.5	1.0
Common Equity Tier 1 (CET1) ratio %	14.2	13.8	14.2	13.8
Cost-to-income ratio %	65.5	71.2	79.8	88.8
Non-performing assets % of the loan portfolio	0.19	0.14	0.19	0.14
LTV-ratio (Loan to Value, average) %	30.3	30.8	30.2	30.8
Loans / deposits %	178.2	187.8	178.2	187.8
Liquidity Coverage Ratio (LCR) %	326.4	201.6	326.4	201.6
Net Stable Funding Ratio (NSFR) %	112.0	106.5	112.0	106.5
Leverage Ratio (LR) %	3.9	3.9	3.9	3.9

- Net interest income increased by 19.3% to EUR 18.2 million (EUR 15.3 million 2022) due to increased interest rates
- Expenses decreased to EUR 16.5 million (EUR 17.5 million 2022)
- Total assets grew to EUR 3.6 billion and receivables from the public to EUR 2.79 billion
- Group's financial position remained stable throughout the period

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# Hypo's Loan Book

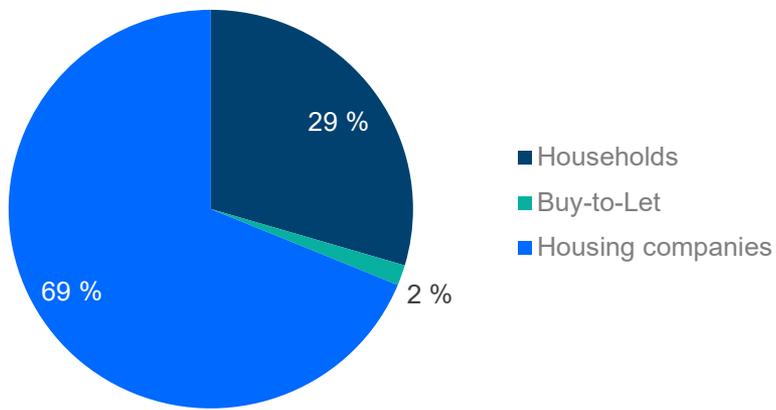


# Loan Book Overview

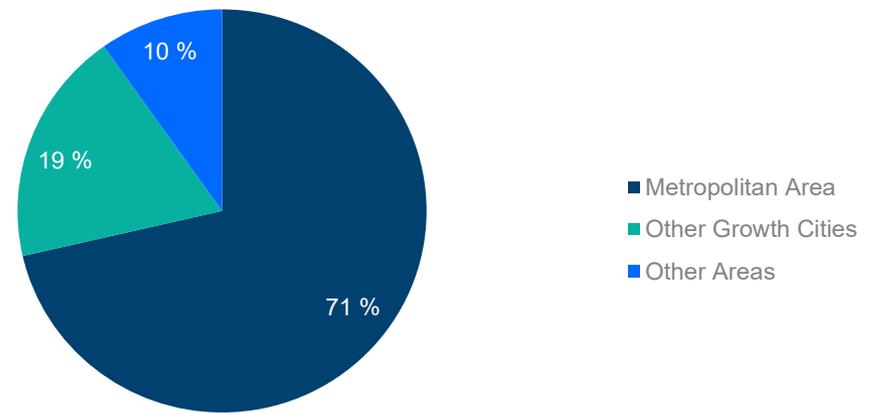


- Hypo's loan book is EUR 2,786 million
- Mortgage loans secured by residential property
- Collateral requirement is set in the Finnish Act on Mortgage Societies
- Two main customer groups
  1. Households: home mortgage, buy-to-let
  2. Housing companies: renovation loans

Lending by Customer Type



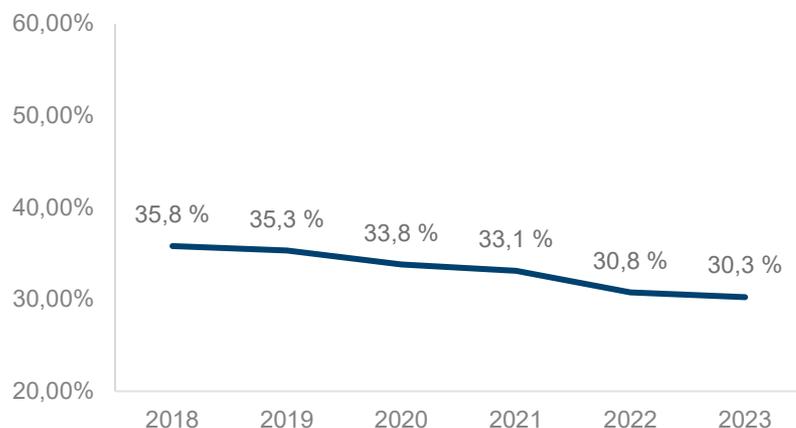
Loan Book by Customer Domicile



# Loan Book Quality Excellent

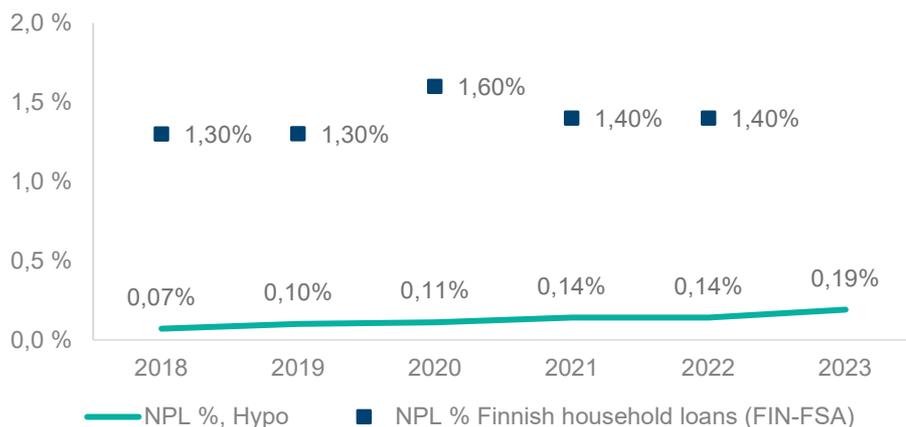


### Hypo Loan Book Average LTV



- The average LTV (loan-to-value) is stable at 30.3%
  - Low LTV combined with conservative collateral valuation makes Hypo's loan book very strong even in times of stress
- Hypo's loan portfolio is entirely secured by residential property located in Finland
- Around 99% of the loans are amortizing and 1% bullets
- The average maturity of a loan at the time of withdrawal is 23.5 years
- Non-performing loans remained very low at 0.19% of total loans

### Non-performing Loans (%)



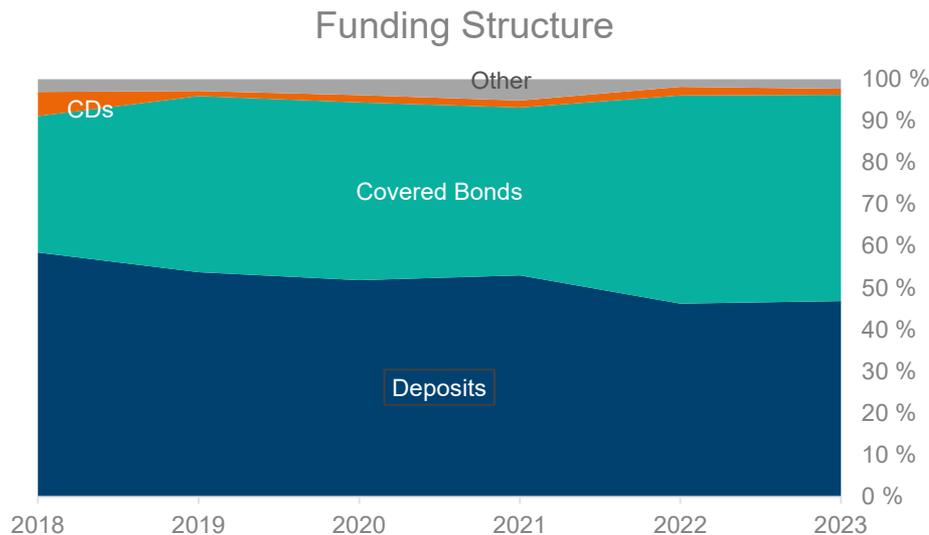
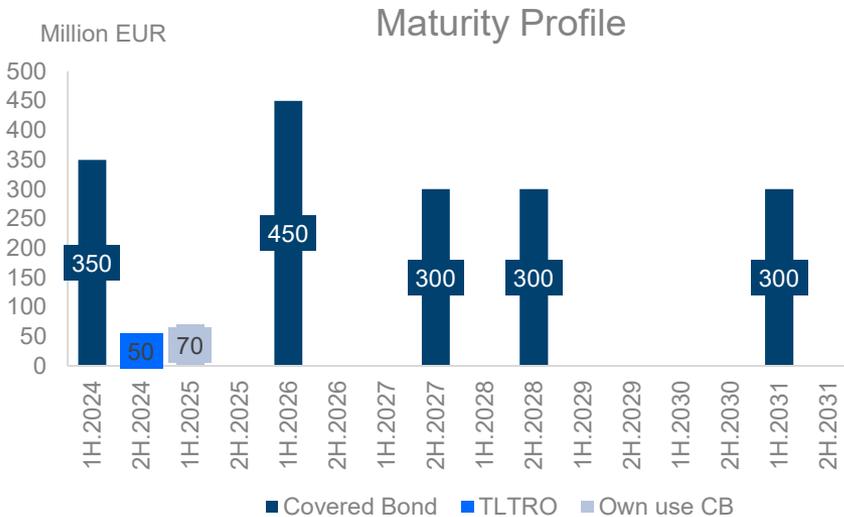
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# Funding and Liquidity



# Diversified Funding Profile



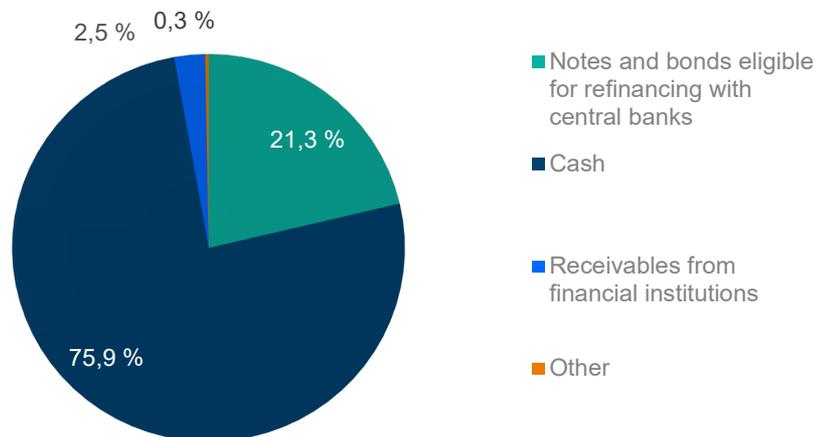
- Covered bond program was inaugurated in 2016
  - Issuer is the group parent, no separate entity
  - Larger issues ( $\geq 250$  million) LCR level 2A eligible
- All Hypo's bonds are
  - Listed on the NASDAQ OMX Helsinki Oy trading list
  - Issued under Finnish legislation and Domestic programmes
- Deposit funding collected through 100% subsidiary bank "Suomen AsuntoHypoPankki"
- Other funding sources
  - Domestic Certificate of Deposit programme
  - ECB repo counterparty
  - Bilateral loans
- Further diversifying funding base through capital markets (eg. senior preferred) in the future
- NSFR 112% (106.5% as at ye2022)
- Deposits through the AsuntoHypoPankki subsidiary form currently ~47% of total funding
- Covered bonds currently ~49% of total funding
- Domestic CD program supports short term funding needs

# Solid Liquidity Position



## Liquidity portfolio EUR 686.4 million as of 31.12.2023

- Equaling 19% of total assets
- Conservative investment policy
  - 97.6% 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 programmes support liquidity
- LCR 326.4% (201.6% as at ye2022)
- Liquidity covers wholesale funding cash flows for the following 26 months.



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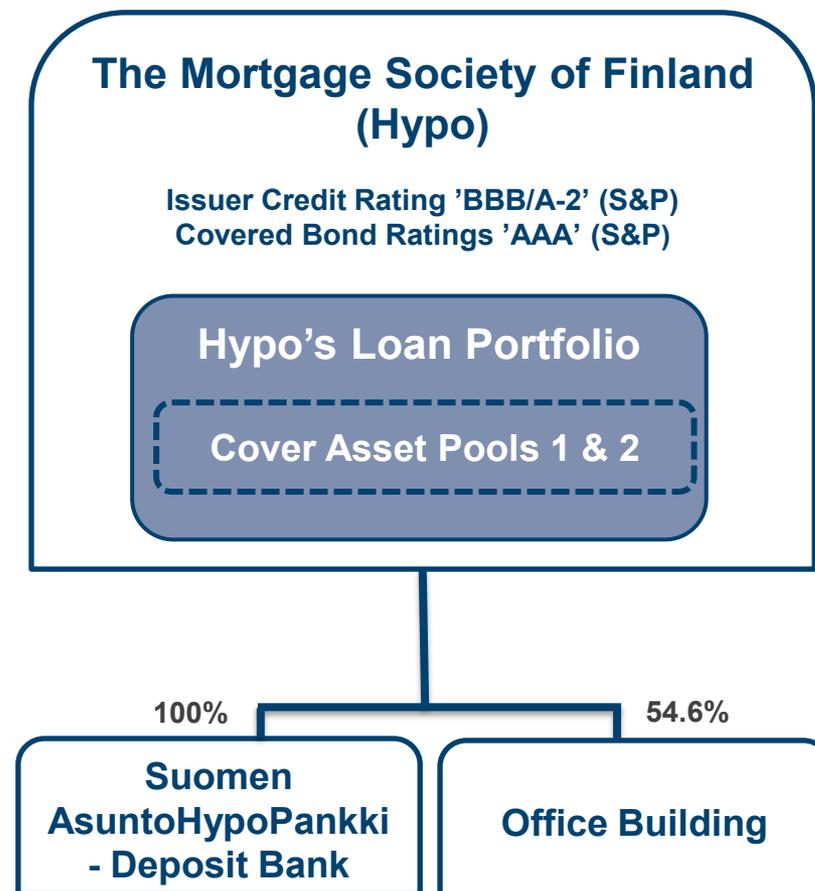
# Covered Bonds



# 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 covered bond registers
- Issuer Credit Rating 'BBB/A-2' (stable)
- Covered Bond Ratings 'AAA' (stable)
- Hypo has two pools: Pool 1 for issues done under previous Covered Bond Act 688/2010 and Pool 2 for **new issuance** under Act 151/2022 (European Covered Bond Premium)



# Hypo Covered Bonds Executive Summary – 31.12.2023



- Issuer is the Group parent, no separate covered bond issuer
- Hypo is a member of ECBC
- Covered bonds rated 'AAA' (stable) by S&P
- Cover pools consist 100% of Finnish residential property
  - Regulatory risk weight of pool assets 35% (Basel III standard method)
  - All collateral located in selected prime growth centers
- Total amount outstanding EUR 1,770 million
- Current WALTV's for pools 30.1% and 25.1%
- Current nominal overcollateralization for pools 28.0% and 26.0%
  - Commitment to keep the OC, in both pools, 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 interest rate risk

Type	ISIN	Issue Date	Maturity Date	Nominal (m€)	Coupon	Pricing
Covered – Pool 1	FI4000266903	28.6.2017	28.6.2024	250	Fixed +0.375	MS +9
Covered – Pool 1	FI4000266903 (tap)	25.10.2017	28.6.2024	50	Fixed +0.375	MS +4
Covered – Pool 1	FI4000375092	13.3.2019	13.3.2026	300	Fixed +0.5	MS +15
Covered – Pool 1	FI4000496344	24.3.2021	24.3.2031	300	Fixed +0.01	MS +6
Covered – Pool 1	FI4000522420 (own use)	20.4.2022	20.4.2025	70	Float EUB 3M +7 bps	
Covered – Pool 1	FI4000375092 (tap)	26.4.2022	13.3.2026	150	Fixed +0.5	private placement
Covered – Pool 1	FI4000266903 (tap)	9.9.2022	28.6.2024	50	Fixed +0.375	private placement
Covered – Pool 2	FI4000541461	15.11.2022	15.11.2027	300	Fixed +3.25	MS +23
Covered – Pool 2	FI4000549605	15.3.2023	15.9.2028	300	Fixed +3.625	MS +32

# Cover Asset Pool 2

## Act 151/2022

- came into force July 2022
- All new issuance will be done under the new Act
- European Covered Bond (Premium)



# Eligibility Criteria for Cover Pool 2



<b>Origination</b>	<ul style="list-style-type: none"><li>• Issuer the Mortgage Society of Finland (Hypo)</li><li>• Only mortgage loans originated by Hypo</li></ul>
<b>Assets Categories</b>	<ul style="list-style-type: none"><li>• 100% Finnish residential assets<ul style="list-style-type: none"><li>• Retail mortgages</li><li>• Housing company residential mortgages (common debt between multiple individuals)</li></ul></li></ul>
<b>Customer Credit Quality</b>	<ul style="list-style-type: none"><li>• No arrears (&gt;30 days)</li><li>• No negative credit history</li><li>• Over 65% of the pool loans have the best internal credit class 'A'</li></ul>
<b>Collateral</b>	<ul style="list-style-type: none"><li>• Maximum LTV limit 80%</li><li>• Current Pool WALTV 25.1%</li><li>• Finnish residential collateral, located in prime growth centers</li><li>• Collateral valuations updated quarterly</li><li>• Commitment to keep OC all times at the level commensurate with S&amp;P rating 'AAA'</li></ul>
<b>Type of Properties</b>	<ul style="list-style-type: none"><li>• Primary residences</li><li>• Limited liability housing companies (multiple individuals)</li></ul>
<b>Type of Products</b>	<ul style="list-style-type: none"><li>• Principal repayment mortgages<ul style="list-style-type: none"><li>• 99% floating interest rate</li></ul></li><li>• No revolving/flexible loans</li></ul>

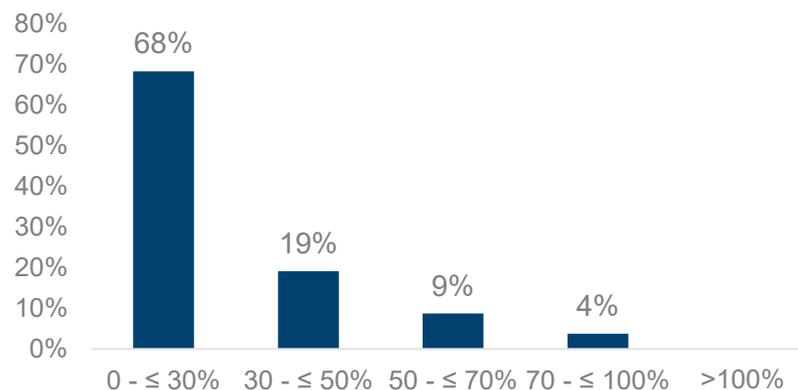
# Cover Asset Pool 2 Data (1/3)



## Pool Data as at 31.12.2023

Applicable law	Act 151/2022
Total Cover Pool (nominal)	EUR 756 168 181
Eligible Cover Pool	EUR 755 238 000
Average Loan Balance	EUR 229 978
Number of loans	3 288
Number of properties	2 619
Number of clients	2 943
WA seasoning (months)	63
WA remaining term (months)	215
WA LTV (indexed)	25.0%
WA LTV total (indexed)	25.1%
Interest	Variable 99% Fixed 1%
Loans in arrears (>30 days)	0.00%
OC level (nominal)	26.0%
OC level (eligible)	25.9%
Pool Type	Dynamic

## LTV Distribution

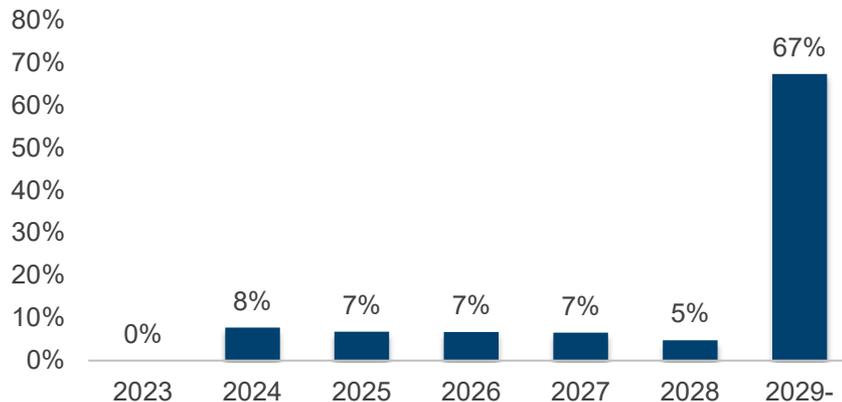


- The weighted average indexed LTV of the pool is 25.1%
- No non-performing loans in the cover pool
- No arrears
- Well-seasoned mortgage cover pool

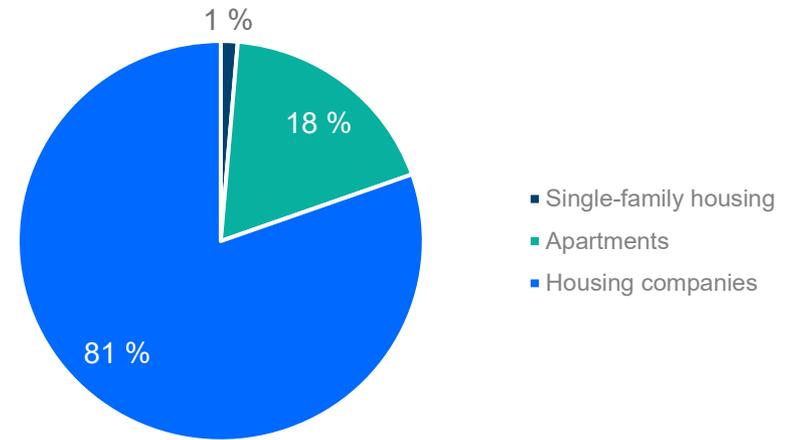
# Cover Asset Pool 2 Data (2/3)



## Pool Loan Maturity Profile Contractual Amortizations



## Pool Collateral Types



- Balanced pool composition: 19% of retail mortgages and 81% 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

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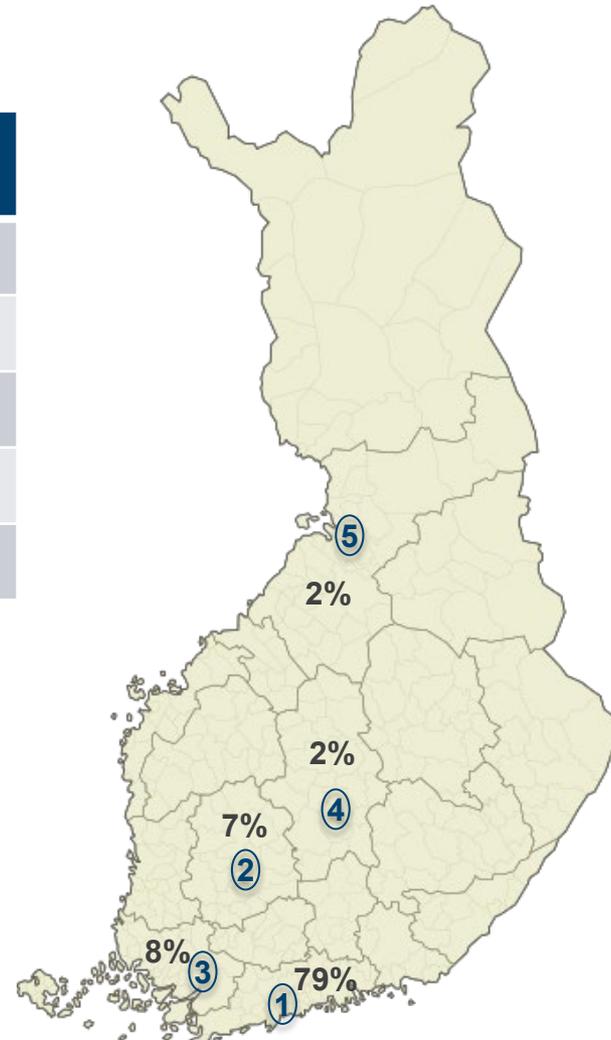
# Cover Asset Pool 2 Data (3/3)



Geographical Distribution as at 31.12.2023

	Region	Major City	Share of the Pool
1	Uusimaa	Helsinki	79%
2	Pirkanmaa	Tampere	7%
3	Varsinais-Suomi	Turku	8%
4	Central Finland	Jyväskylä	2%
5	North Ostrobothnia	Oulu	2%

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

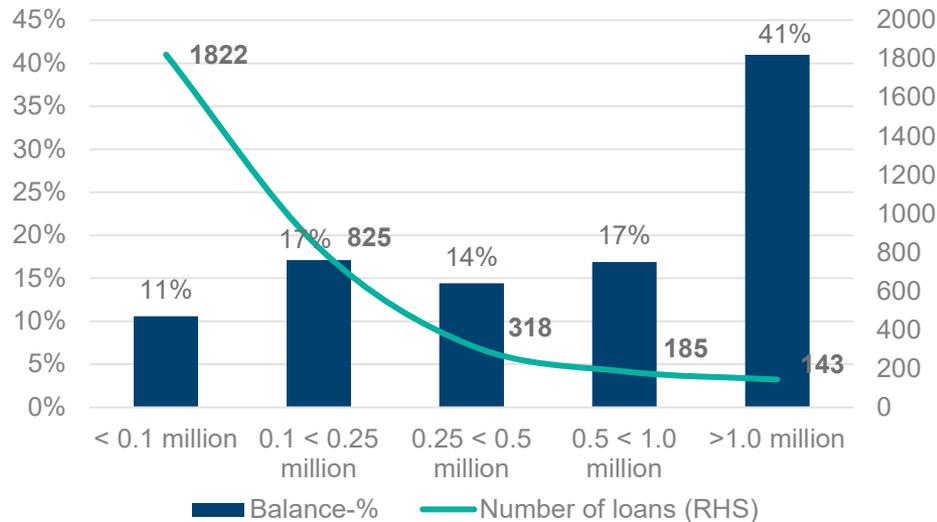


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# Cover Pool 2 Loan Size Distribution



Loan Size Distribution:  
Share and Number of Loans



- 28% 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 < 5,000 excluded from the cover pool

# Cover Pool 2 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%	616	586	533	503	457
40- ≤ 70%	112	115	146	156	175
70- ≤100%	28	52	67	69	57
>100%		4	10	28	67
<b>Pool total (nominal), EUR million</b>	756	752	747	728	689
<b>OC (nominal)</b>	26.0%	25.4%	24.4%	21.3%	14.8%

- 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 of loans total still exceeds EUR 600 million (the total outstanding amount of bonds).

# Sustainability



# Sustainability – Natural part of Hypo's operations



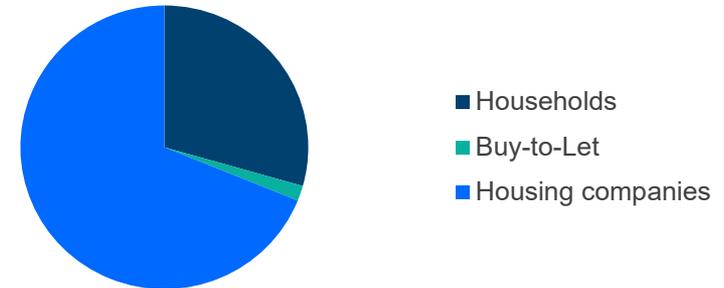
- Hypo's Aim
  - Hypo's aim as a mortgage lender is to improve the wellbeing and prosperity of our customers through home ownership
- Opportunity to Hypo
  - Concrete climate change mitigation measures, such as increased energy efficiency projects and renovation projects to promote renewable energy sources, are an opportunity to Hypo's business
- Timeline
  - Work to assess risks related to sustainability, climate and environment has started in Hypo and is progressing well
  - The Group will start applying the Taxonomy Regulation and the Sustainability Reporting Directive (CSRD) for the financial year starting 1 January 2025

# ESG - Environment

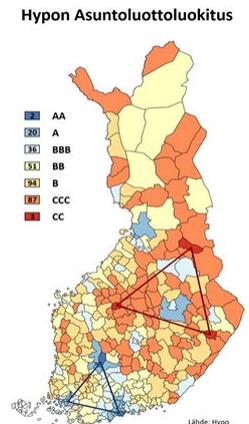


- Loan Portfolio supports environmental objectives:
  - Two thirds of Hypo's loan portfolio have been granted to housing companies for various renovations projects that help prolong the life of the building

Lending by Customer Type



- Regional Rating
  - Examines the Finnish regional housing market from a mortgage lender's perspective, and considers several environmental, climate and other sustainability factors
- Cooperation with Nordic Investment Bank
  - Hypo has been working with NIB for more than ten years through loan programmes targeted to environmental investments in residential buildings
  - The financing has been primarily intended for renovation projects that improve the energy efficiency of the housing companies



# ESG - Social Responsibility



- Our customer promise “Secure Way For Better Living.” sums up our aim to increase wellbeing through responsible stewardship of housing wealth
  - We aim to raise awareness of current housing and housing finance issues in a way that is easy for everyone to understand
  - With our strong expertise, we actively participate in the social debate on the housing market and the economy
  - Our housing market and economic reports address social issues that are central to housing in a simple and realistic way
- Expertise and support from Hypo’s housing finance managers to borrowers for the biggest purchase of their lifetime
- Plot Concept
  - Developed by Hypo, the concept lowers the threshold for home ownership by separating the price of land from the purchase price of the apartment. The ‘Plot Concept’ has during its 20-year lifespan become a meaningful part of financing solutions of home construction, especially in growth centers.
- Responsibility through employer and taxpayer roles
  - Wellbeing of employees is actively taken care of by investing in health care services and other benefits
    - Employee turnover is small, and Hypo has a lot of long-term, committed personnel
  - Hypo has an Employee equality plan, that is monitored yearly
  - In 2023, Hypo paid EUR 6.8 million in salaries and EUR 3.7 million in pension expenses, other side expenses and taxes.

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# ESG - Good Governance



- Hypo acts responsibly in lending by applying the orders and recommendations of the Finnish Financial Supervisory Authority as well as other regulations and guidelines from the authorities.
- Hypo applies the governance code of Finnish listed companies in its administration
- Know your customer (KYC), and prevention of money laundering and terrorist financing regulations are a part of the principles of banking and a substantial part of banks operations
- Hypo participates actively in common lobbying work in the financial sector, which focuses strongly on new banking regulatory projects

# Outlook



# Future Outlook



“Finland's economic growth is weak during year 2024. Labor markets cool down and foreign trade stagnates. The construction sector is in a weak phase, and construction investments are lower than before, but decreasing inflation and improving wages support consumers' purchasing power. The reductions in transfer tax will help the housing market, which will recover better only after inflation and interest rates calm down. Housing starts are declining, but the completion of housing already in production will keep house prices moderate for the first half of this year. Differences between housing market areas and units become more important and urbanization continues supported by the strong supply of housing.

Hypo Group focuses on strengthening its core business and profitability. The Group expects net interest income, net fee and commission income, capital adequacy and liquidity to remain on a strong level.

The Mortgage Society of Finland group expects its operating profit for year 2024 to be clearly higher than operating profit for 2023. The outlook contains uncertainties due to development in economy and interest rates as well as uncertainties related to the wars in Ukraine and Gaza and the unstable global situation.”

# Finnish Economy & Housing Market

## Overview



# Finnish economy in a nutshell



National account	2022	2022	2023	Forecast*	
				2024	2025
	EUR bn (current prices)			% y/y	
GDP	268	1,6	-0,5	0,0	2,0
Imports	128	8,5	-6,5	1,0	3,0
Exports	122	3,7	-0,5	0,5	3,0
Private Consumption	133	1,6	-0,8	1,0	2,0
Public Consumption	64	0,5	4,0	0,0	0,5
Investments	65	3,1	-5,5	1,0	3,0
Economic indicators		2022	2023	2024	2025
Unemployment rate, %		6,8	7,0	8,0	7,5
Earnings, % y/y		2,4	4,5	3,0	3,0
Inflation, % y/y		7,1	6,3	1,5	2,0
Housing prices, % y/y		0,5	-6,4	0,0	3,0
Current account, % of GDP		-2,5	-0,1	-0,7	-0,7
Public deficit, % of GDP		-0,8	-1,6	-2,4	-2,0
Public debt/GDP, % of GDP		73,3	75,5	78,0	80,0

\*February 2024. Source: Hypo, Statistics Finland

# Households adapting well to interest rates



billion eur, mortgage loan renegotiations per month



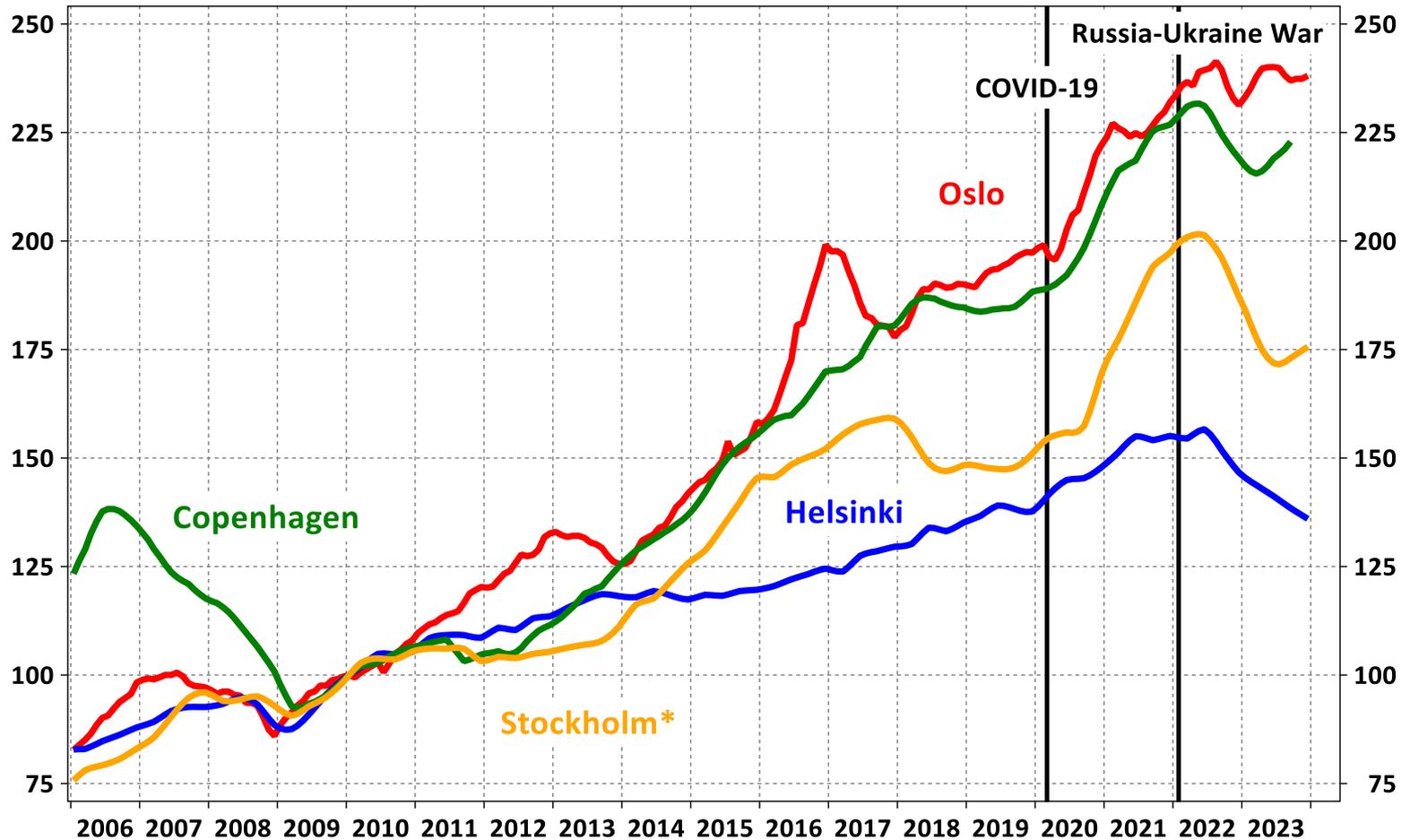
Source: Hypo, Macrobond

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# Prices settle down instead of crashing



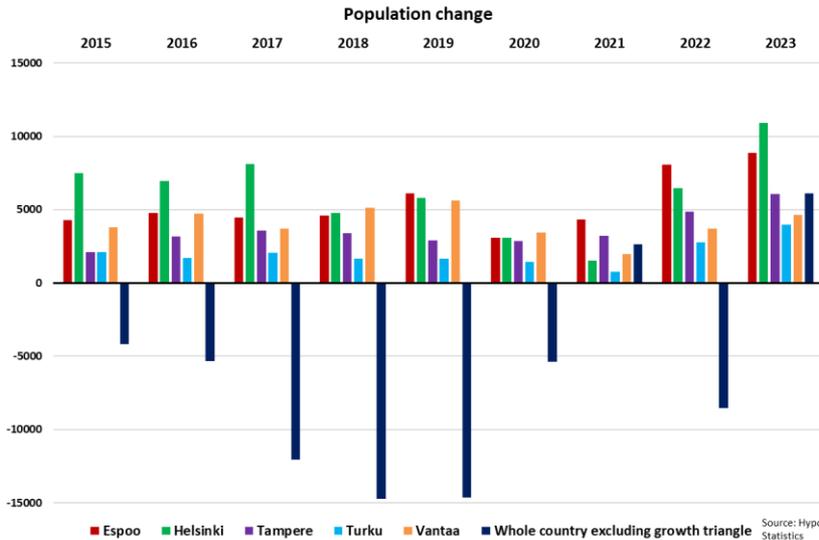
2010 = 100, apartment prices, seasonally adjusted



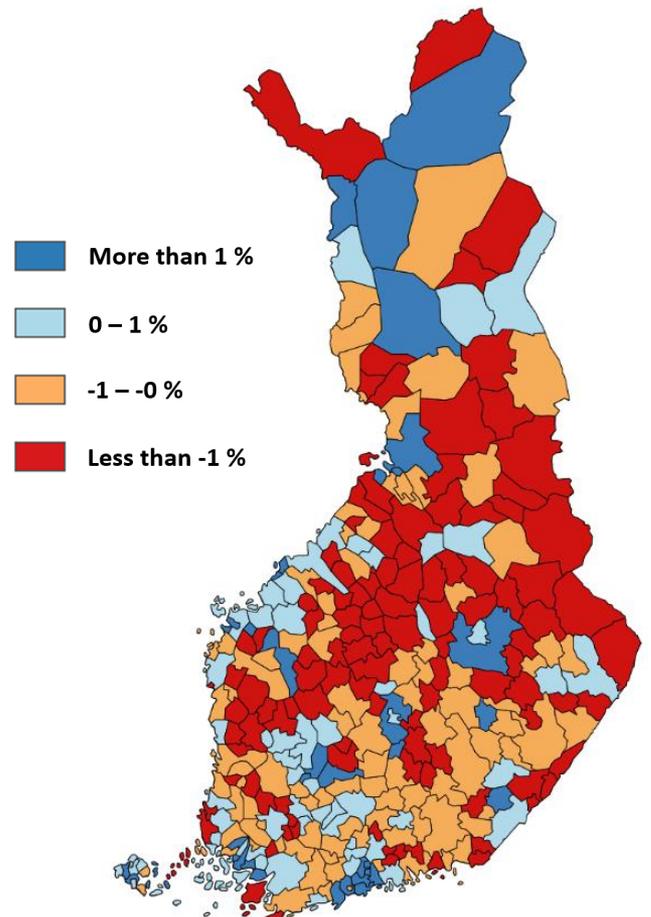
Source: Hypo, Macrobond. \*Greater Stockholm, One- & Two-Dwelling Residential Buildings

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# Urbanization continued



## Population growth 2023



Source: Hypo, Statistics Finland

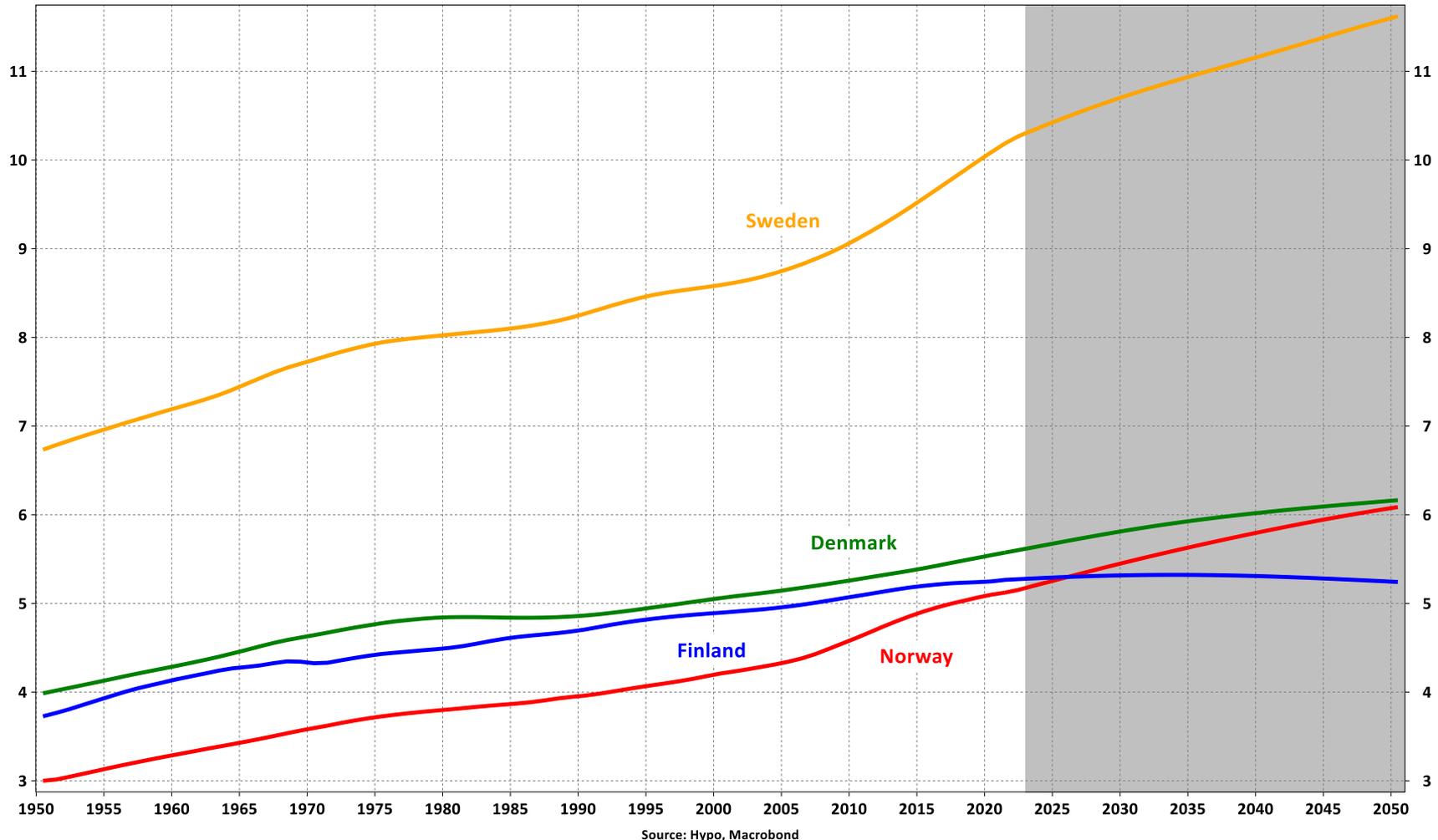
- Population growth was strongest in the largest university cities last year.
- Statistics Finland's population forecast predicts that growth will be concentrated in the growth triangle area of the Greater Helsinki region, Tampere and Turku.
- Thanks to immigration, Finland's population grew by more than 40,000 people last year, which is the largest growth since 1956.

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# Population outlook weak in Finland



Million, Population, Projection: UN, Statistics Finland

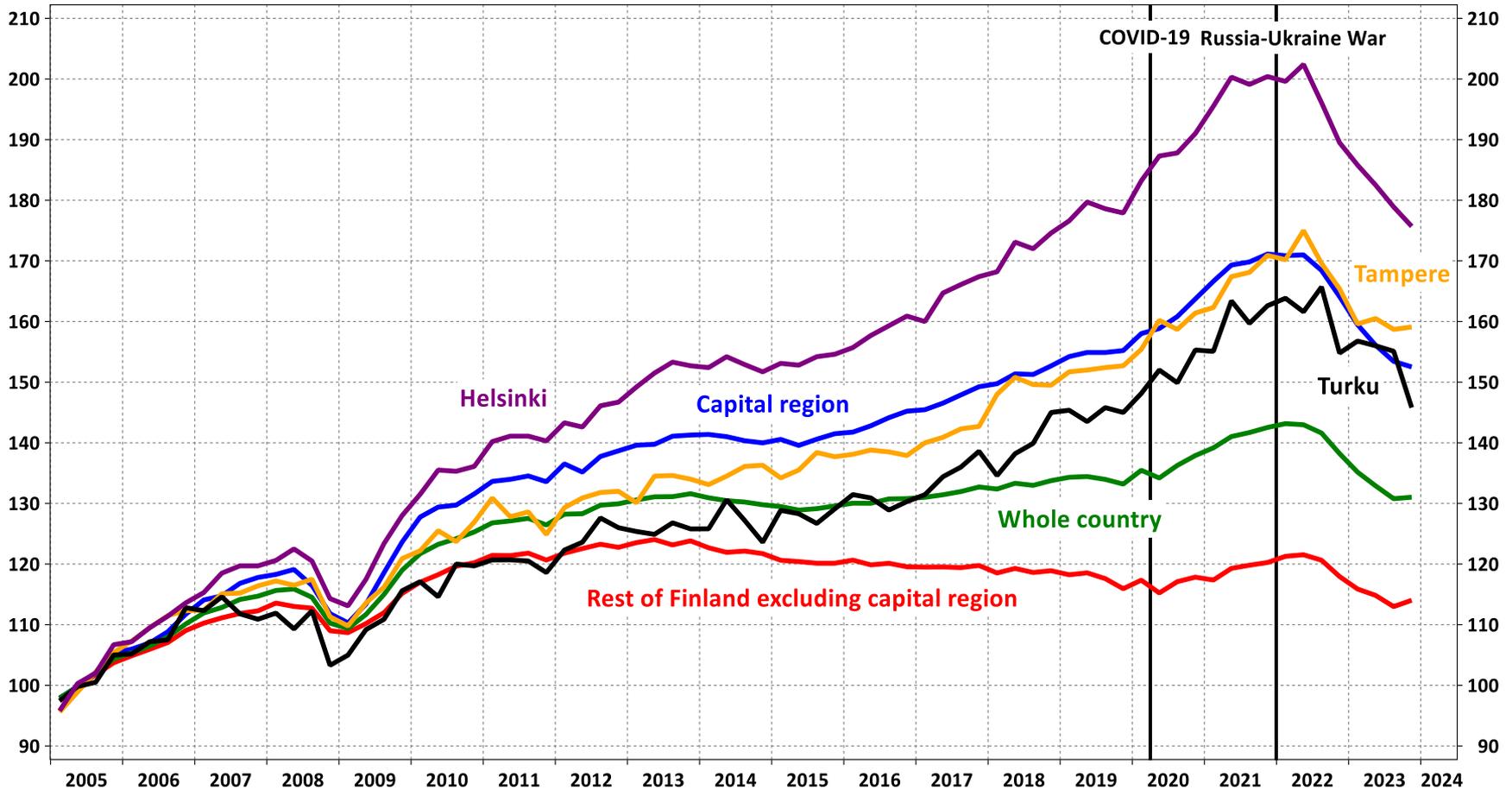


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# Urbanization drives housing prices



2005 = 100, Prices of old dwellings, seasonally adjusted



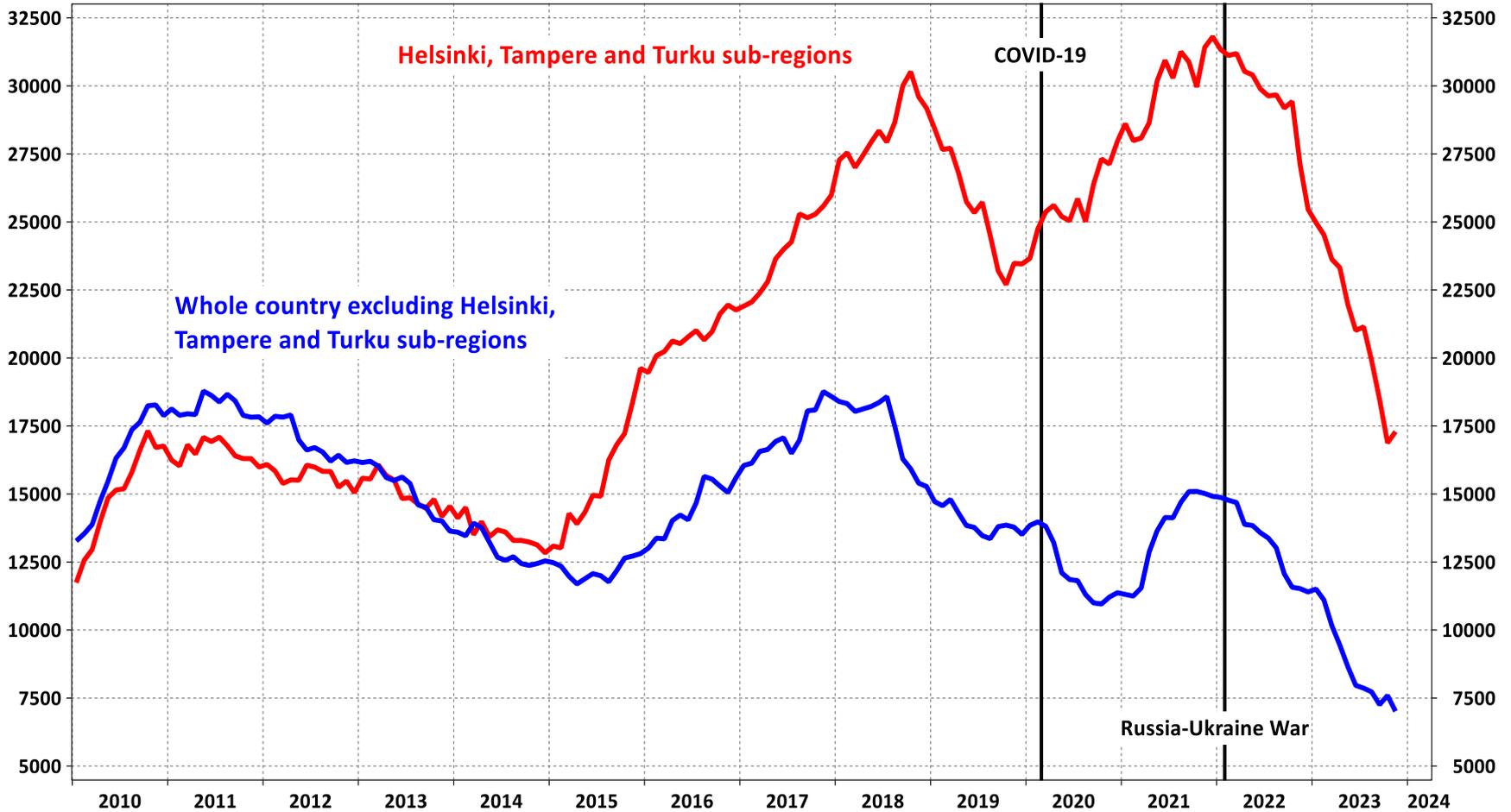
Source: Hypo, Macrobond

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# Construction concentrates in key areas



Dwellings, 1 year moving average, building starts

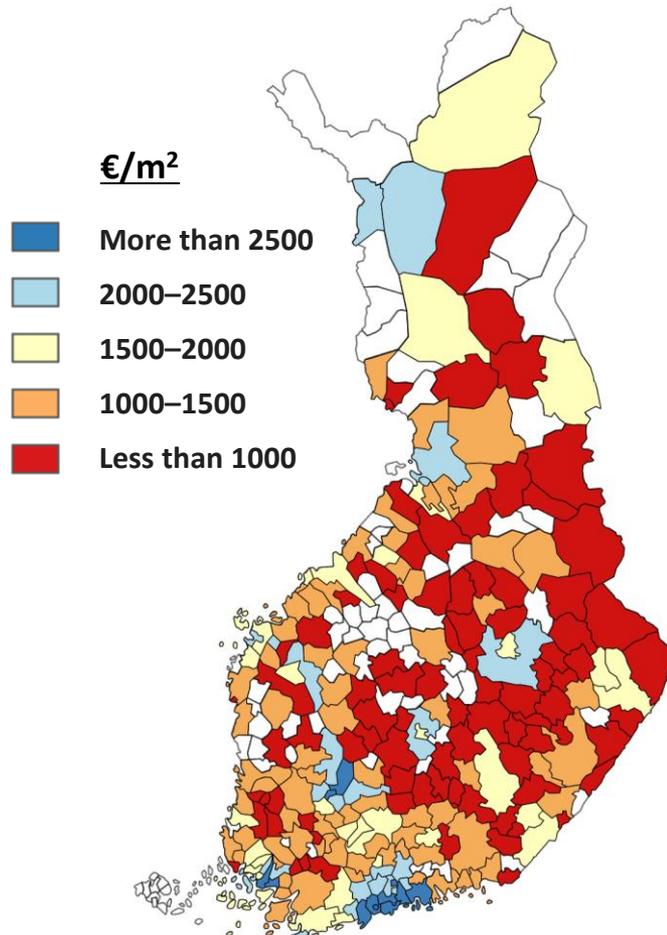


Source: Hypo, Macrobond

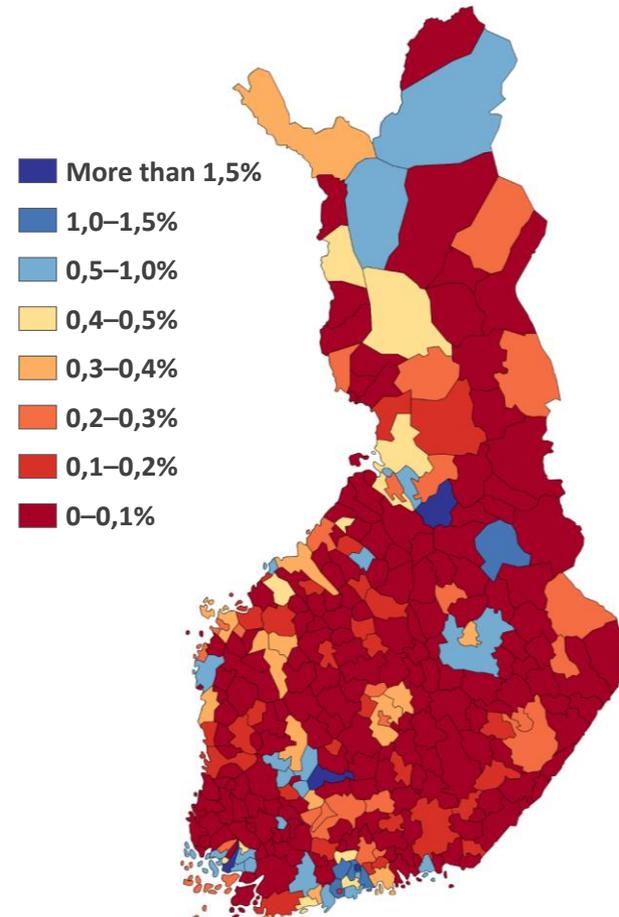
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# High prices stand for high demand

## House prices 2022

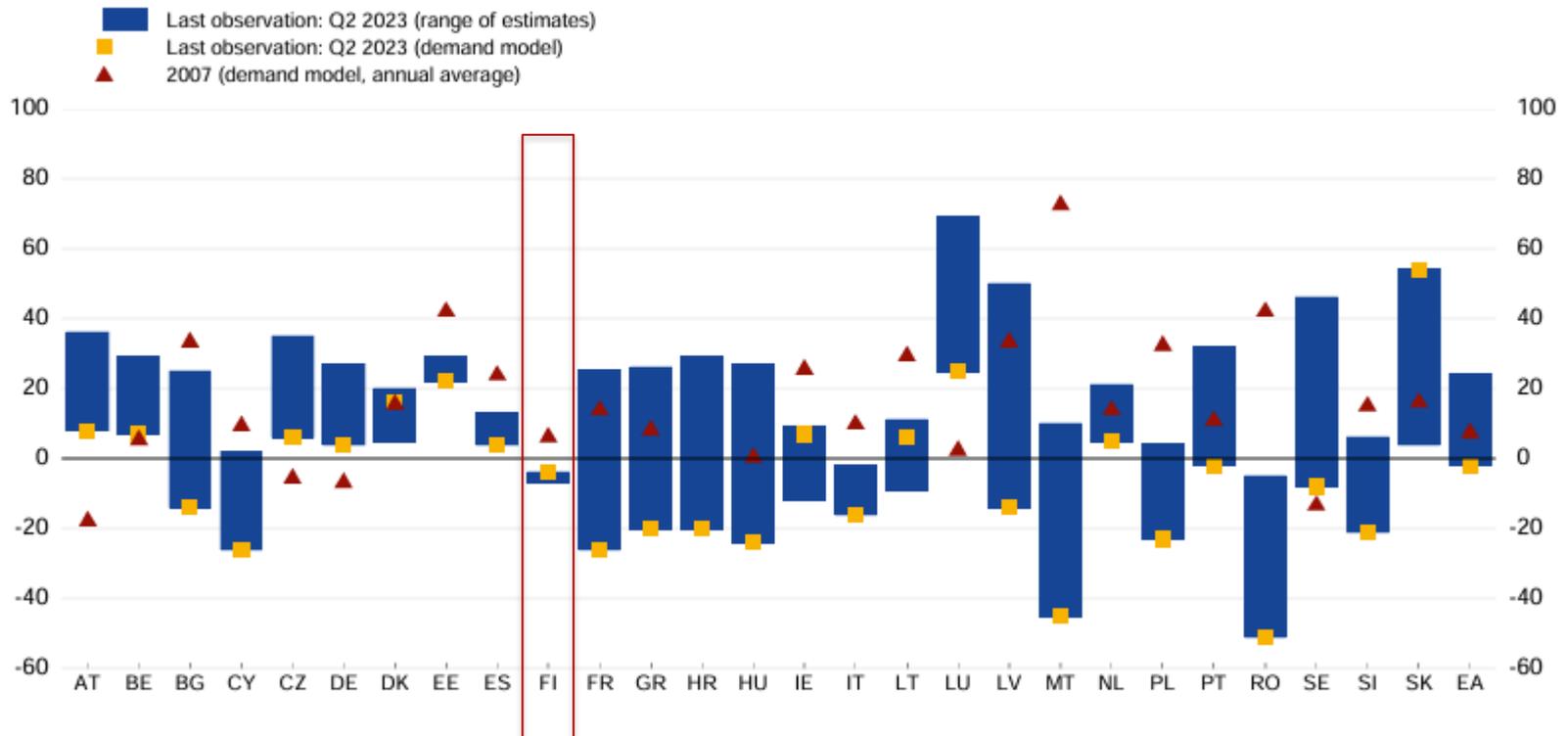


## Newbuilding starts per housing stock January-June 2023



# 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.



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