

# Hypo Investor Update 3Q2019

Debt Investor Presentation



Published on October 31, 2019

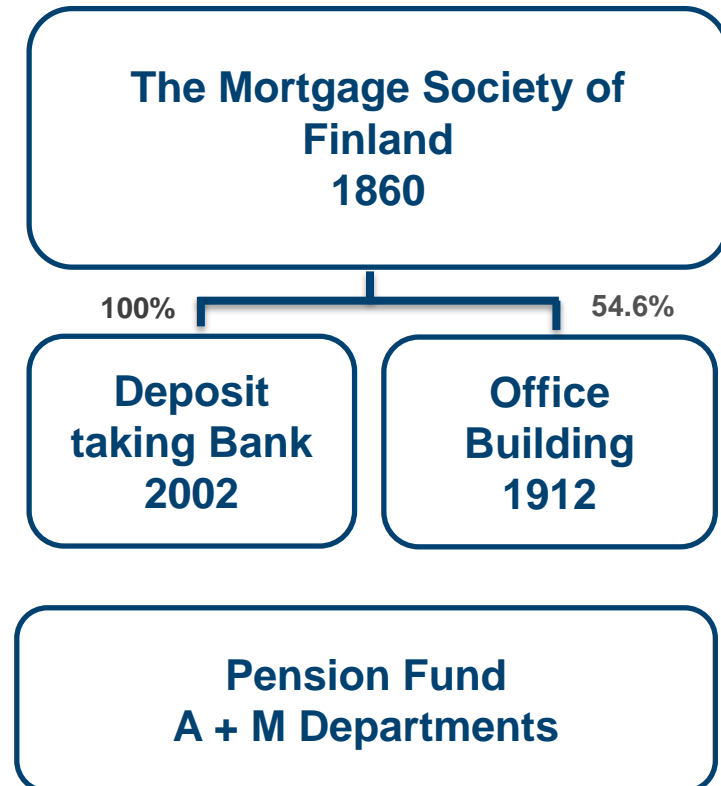


**Secure Way for Better Living**

# Hypo Group Overview



- Founded in 1860
  - The oldest private credit institution in Finland
- Retail banking, no corporate lending
- Supervised by the FIN-FSA
- 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 0.1%)
- Established and regular issuer in Finland
- Total assets EUR 3.2 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, monoline player with concentrated niche market position
- Conservative approach to risks and a very low risk appetite

### 2. Hypo capital and earnings

+2

- Very strong risk-adjusted capital (RAC)
- Mutual company: retained profits solely used for capital buildup
- Interest income from loans expected to strengthen spurred by improved margins

### 3. Hypo risk position

-1

- Strong asset quality and exceptional loan-loss track record in recent decades
- Moderate risk position due to concentration risks
- Partly mitigated by very conservative lending and underwriting standards

### 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



TALOUSSANOMAT

OMX HELSINKI

↓ -0,37%

DOVRE GROUP PL

10:34

ETUSIVU

UUTISET

## "Asuntolaina ei ole enää kahvipaketti vaan määrä kankkunen uhkaa"



## Taloyhtiöiden maineen pilaaminen harrmittaa asuntorahoitusmies



## Hypo löysi asuntomarkkinoilta uuden trendin - iso elämäntavan muutos menossa

3.5.2019 06:30

ASUMINEN ASUNTOJEN HINNAT ASUNTOLAINA SUOJITTAMINEN ASUNTOJASOITTAMINEN

## Taloukasvu hyytyy - Hypo ennustaa Suomen käyvän taantumassa loppuvuonna

30.8.2019 05:00 | päivitetty 30.8.2019 11:40

KANSANTALOUS ASUMINEN POLITTIKKA



Talous

## Hypo: Suomi on kääntymässä kohti taantumaa

Hypo arvioi Suomen bruttokansantuotteen kasvavan tänä vuonna 1,3 prosenttia, ensi vuodelle...



-Vaikka ymmärrän Finoman kodin ostajien sanoo. (KUVA: Heikki Seppä)

Julkaisu: 19.3. @ 05

Jaa

Finanssivalvo Hypo:n Ari Paasilinen ennakoi enemmän asiakkaita.



Hypön mukaan Suomen taloukasvun näkymiä heikentävät muun muassa Euroopan talouden yleiset ongelmat. Kuva Frankfurtin pörssistä torstailta. (KUVA: REUTERS)

Ines Sirén HS

Julkaisu: 30.8. 0:01



SUOMI tulee kääntymään loppuvuonna kohti taantumaa, arvelee

## Nyt tinkimään asuntokaupoilla - Hypo: "Suomesta saa maailman halvimpia asuntolainoja"

3.7.2019 07:00

ASUMINEN ASUNTOLAINA

## Hypo: Suomen kasvu on tältä vuodelta nähty

Hypön mukaan ensi vuotta on poikkeuksellisen vaikea ennustaa.

Suomen talous 30.8.2019 klo 04:31

Luet

ju

1.

2.

3.

4. Sähköpotkulaatayritys pelastyi kaahailusta syntyneestä kohusta: Lautoihin asennetaan Helsingissä nopeusrajoittimet

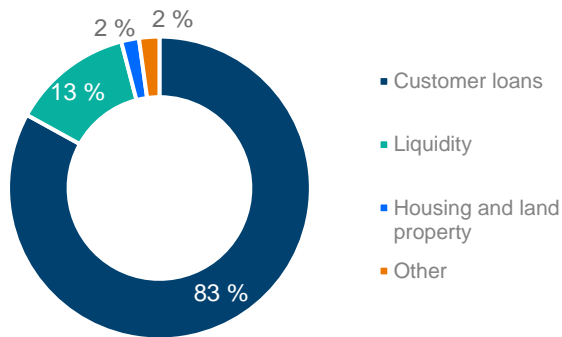
# Financial Results



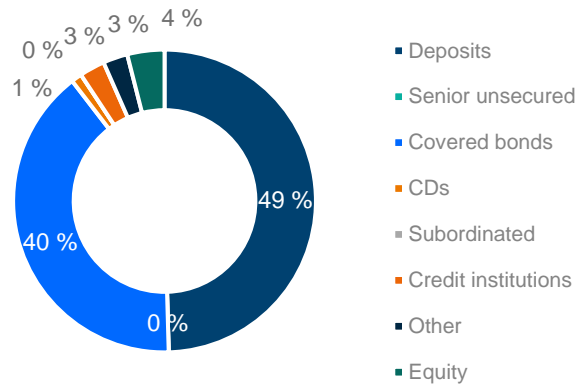
# Strong Balance Sheet



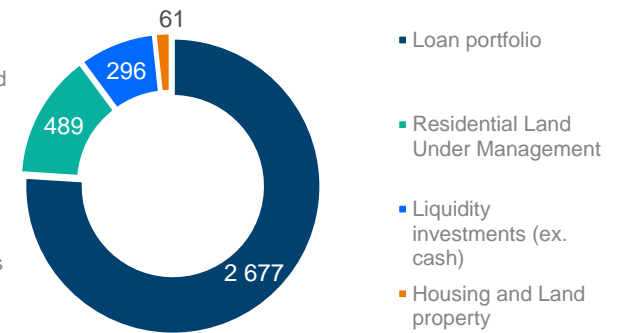
**Total Assets**



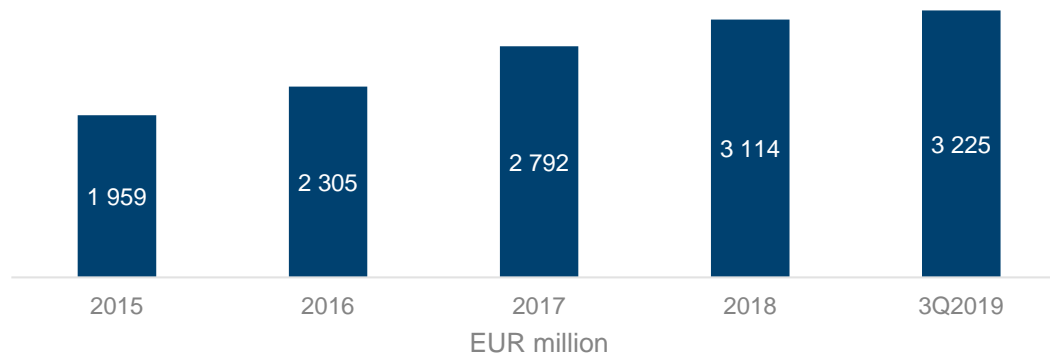
**Liabilities and Equity**



**Revenue Generating Assets (m€), on and off balance sheet**



**Balance Sheet Total**

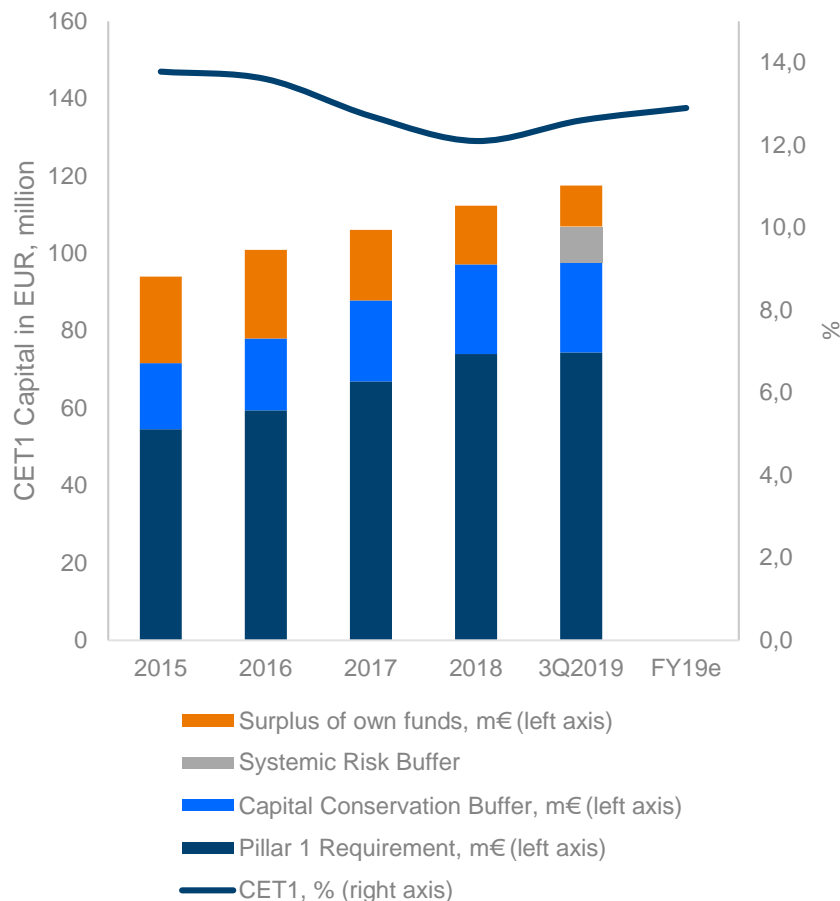


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# Solid Capital Basel III Standard Approach



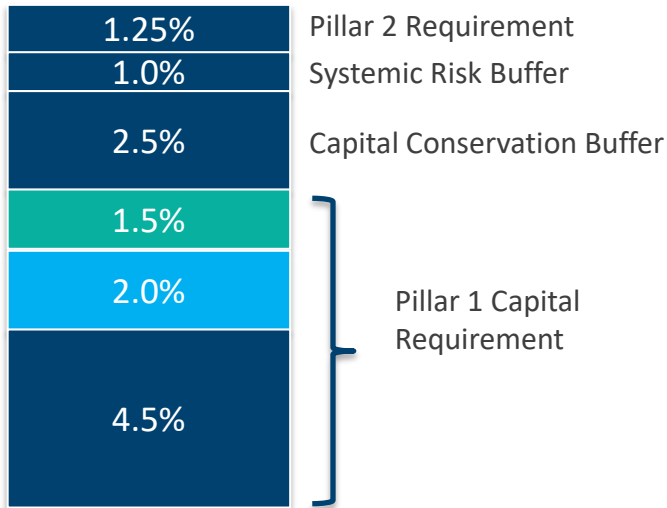
## Capitalisation



- Mutual company: all profits retained and added to the core capital
- S&P's Risk Adjusted Capital 15.9% on 31.12.2018
- Total Capital Ratio (all CET1) 12.6%
- EUR 10.6 million of excess capital after
  - 8.0 % Pillar 1 Requirement
  - 2.5 % Capital Conservation Buffer
  - 1.0 % Systemic Risk Buffer
- EUR 5.0 million of hidden reserves in housing property (not marked-to-market) and EUR 5.7 million of surplus in Pension Fund
  - Inclusion into CET1 would raise the ratio to 13.6%
- Basel III standardized approach risk weights
  - Lending with residential collateral: 35% risk weight
  - Housing and land investments: 100% risk weight



# Hypo Group's Capital Requirements



- To be met fully with Tier 1 -capital
- Possible to use Tier 2 -capital
- Possible to use Additional Tier 1 -capital

Pillar 1 Capital Requirement	8.00%
Capital Conservation Buffer	2.50%
Systemic Risk Buffer	1.00%
<ul style="list-style-type: none"> <li>• Entered into force on 1.7.2019</li> </ul>	
Pillar 2 Requirement	1.25%
<ul style="list-style-type: none"> <li>• Enters into force on 31.12.2019</li> </ul>	

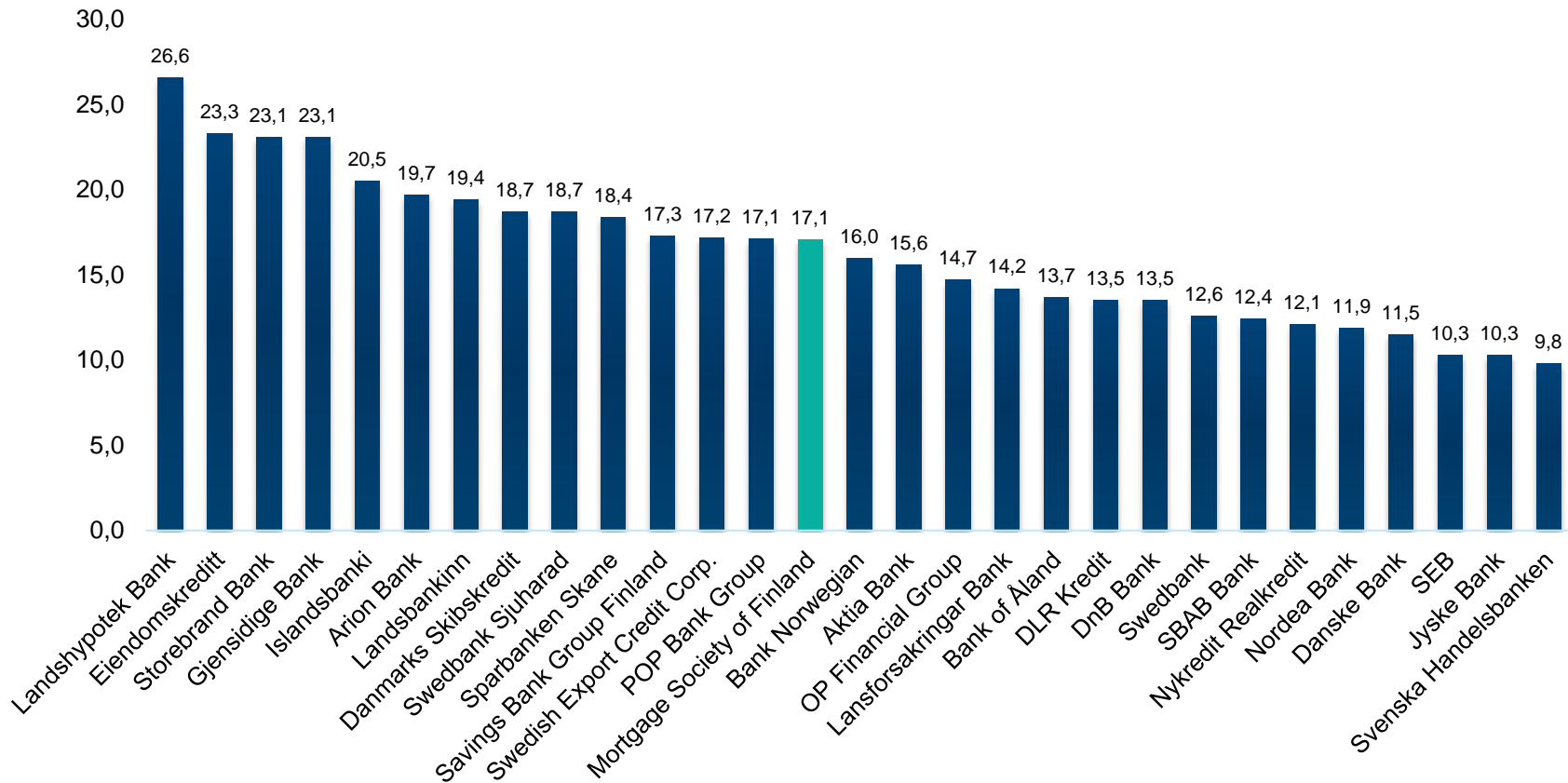
→ Total Capital Requirement now 11.50%  
 31.12.2019 12.75%

Expected Total Capital Ratio at 31.12.2019 12.9% without additional actions.

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



S&P's Nordic RAC Ratios 31.12.2017



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# Group Income Statement



(EUR 1 000)	1-9/2019	1-9/2018	2018	2017
<b>Net Interest Income</b>	10 433	8 980	12 331	8 991
<b>Net Fee and Commission Income</b>	2 709	2 909	3 795	3 525
<b>Total Other Income</b>	2 058	2 376	2 097	5 190
<b>Total expenses</b>	- 8 813	- 8 313	- 11 058	- 11 055
<b>Operating Profit</b>	<b>6 386</b>	<b>5 952</b>	<b>7 165</b>	<b>6 651</b>

- Net Interest Income continued to grow to EUR 10.4 million (EUR 9.0 million for January- September 2018) due to lower funding costs.
- Hypo Group's operating profit was EUR 6.4 million (EUR 6.0 million). An increasing amount of operating profit originated from core business operations.
- Net Fee and Commission Income totaled EUR 2.7 million (EUR 2.9 million).
- Total other income (incl. treasury operations and housing and residential land) amounted to EUR 2.1 million (EUR 2.4 million).
- Total expenses totaled EUR 8.8 million (EUR 8.3 million).

# Group Key Financial Figures



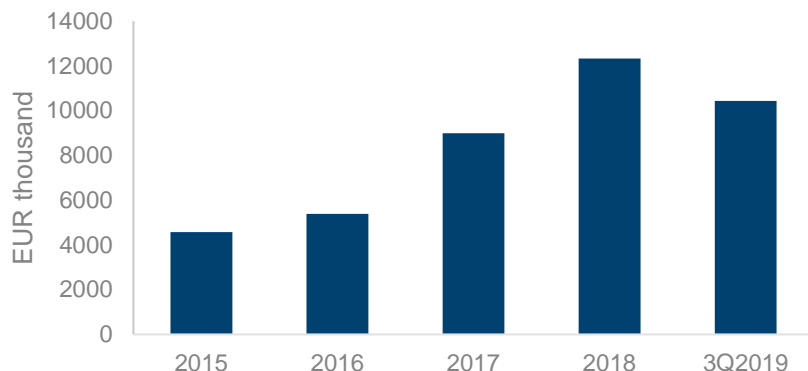
	1-9/2019	1-9/2018	2018	2017
Return on Equity (%)	5.5	5.5	5.0	4.9
Common Equity Tier 1 ratio (%)	12.6	12.1	12.1	12.7
Cost-to-income ratio (%)	58.2	58.1	60.6	62.5
Non-performing assets (%)	0.10	0.08	0.07	0.14
Loan-to-value ratio (%)	35.5	36.0	35.8	37.4
Loans-to-deposits (%)	167.5	151.5	150.7	143.6
Loan portfolio total (m€)	2 677	2 512	2 589	2 213
Balance sheet total (m€)	3 225	2 999	3 114	2 792

- Total assets were EUR 3.2 billion and loan portfolio EUR 2.7 billion.
- CET1 ratio was 12.6% and the amount of equity increased to EUR 128 million.
- Group's financial position remained stable throughout the period.

# Net Interest Income Increases Despite Low Interest Rate Environment

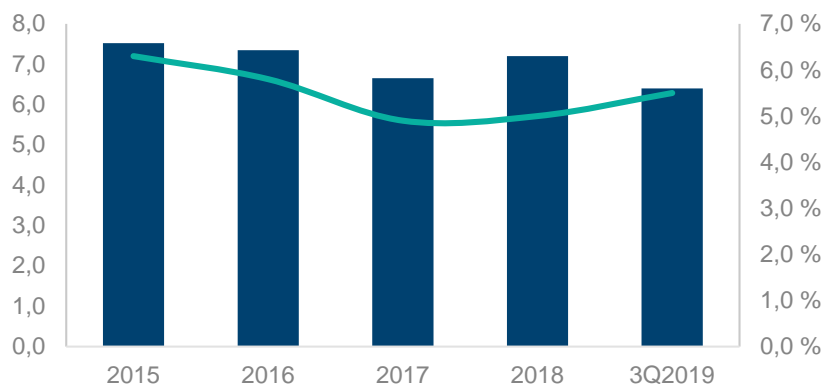


### Net Interest Income

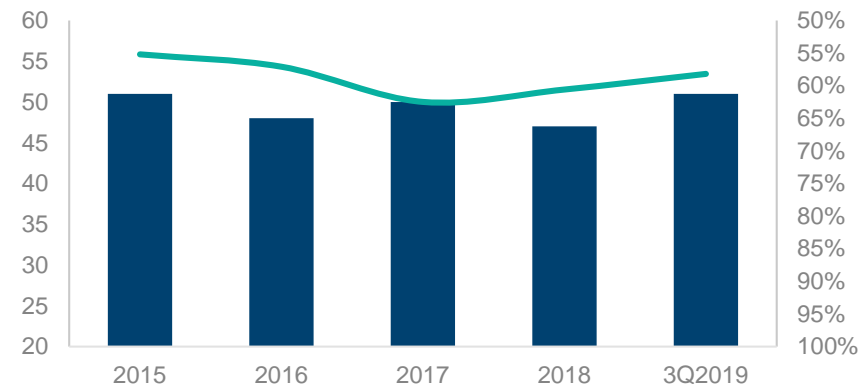


- Net interest income continued to grow to EUR 10.4 million (EUR 9.0 million) due to lower funding costs.
- Operating profit was EUR 6.4 million (EUR 6.0 million 1-9/2018)
- Cost-to-income ratio 58.2% (58.1% 1-9/2018)

### Profitability



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



■ Operating profit m€ (LHS)    — Return on equity, % (RHS)

■ Average number of employees    — Cost-to-income ratio, %

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# Hypo's Loan Book

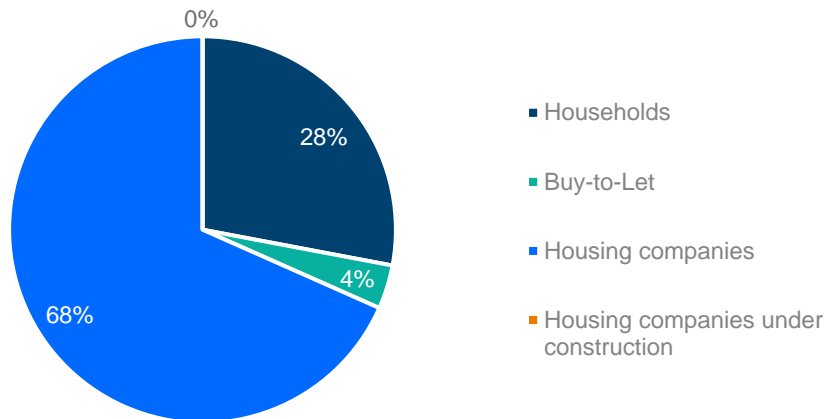


# Loan Book Overview

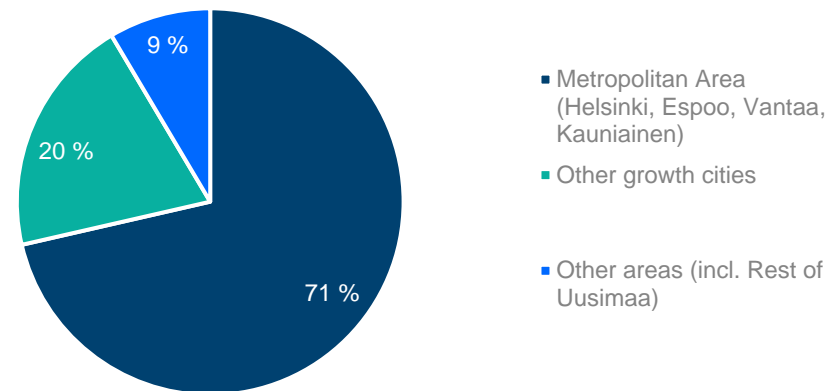


- Mortgage loans secured by residential property
- Collateral requirement is set in the Finnish Act on Mortgage Societies
- Two main customer groups
  1. Households: home mortgage, buy-to-let
  2. Housing companies: renovation loans, construction phase loans

## Lending by Customer Type



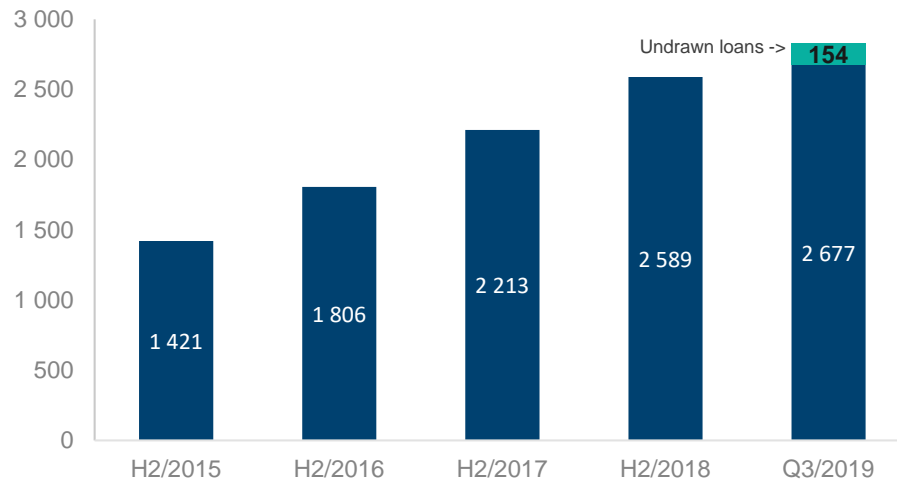
## Loan Book by Customer Domicile



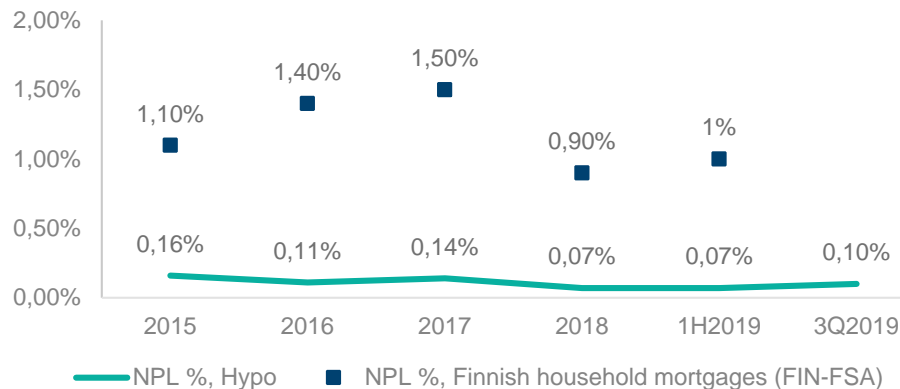
# Loan Book Steady



Hypo Loan Book Total, m€



Non-performing Loans (%)



- Hypo's loan book was EUR 2 677 million
- Currently EUR 154 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 0.1% of total loans
- The quality of the loan book well above the Finnish household mortgage average NPLs.

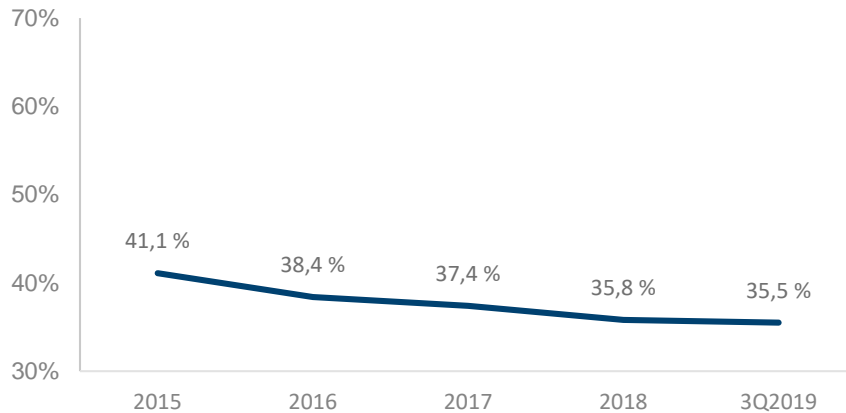
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# Loan Book Quality Excellent

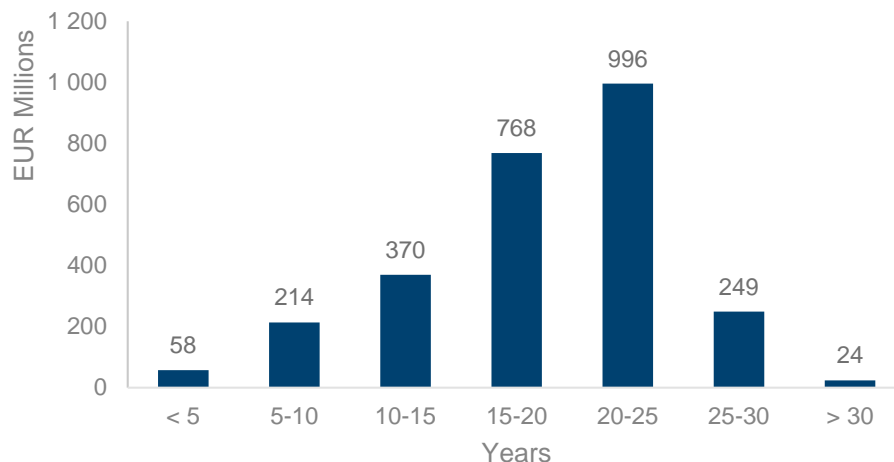


Hypo Loan Book Average LTV



- Hypo's loan portfolio is entirely secured by residential property
- The average LTV (loan-to-value) stable at 35.5%
- 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

Loan Book by Remaining Maturity (years)



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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 OMX 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)

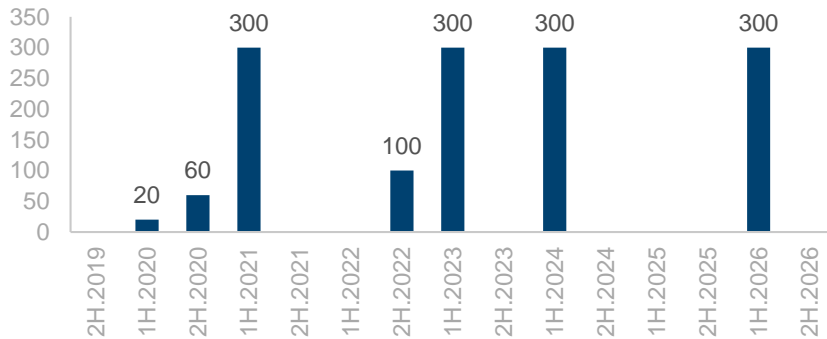
## Outstanding Issues as of 30.9.2019 (nominal amount issued)

Type	ISIN	Issue Date	Maturity Date	Nominal (m€)	Coupon	Pricing
Covered	FI4000206966	10.5.2016	10.5.2021	250	Fixed +0.25	MS +22
Covered	FI4000206966 (tap)	27.9.2016	10.5.2021	50	Fixed +0.25	MS +10
Covered	FI4000232855	7.12.2016	7.12.2022	100	Fixed +0.25	MS +11
Covered	FI4000266903	28.6.2017	28.6.2024	250	Fixed +0.375	MS +9
Covered	FI4000266903 (tap)	25.10.2017	28.6.2024	50	Fixed +0.375	MS +4
Covered	FI4000315841	24.4.2018	24.4.2023	250	Fixed +0,375	MS +6
Covered	FI4000315841 (tap)	14.11.2018	24.4.2023	50	Fixed +0.375	MS +9
Covered	FI4000375092	13.3.2019	13.3.2026	300	Fixed +0.5	MS +15

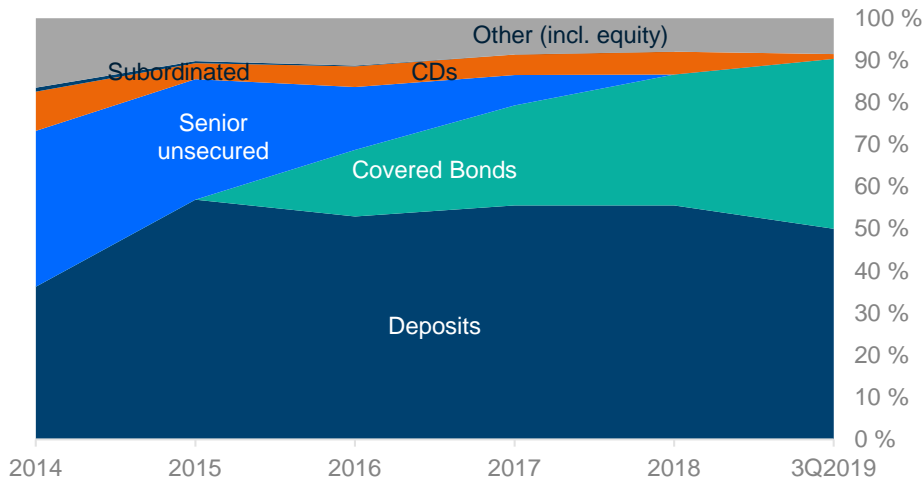
# Diversified Funding Profile



Maturity Profile - Long Term Wholesale Funding



Funding Structure



- Deposits through the AsuntoHypoPankki subsidiary form currently ~50% of total funding
- Covered bonds currently ~40% of total funding
- Domestic CD program supports short term funding needs

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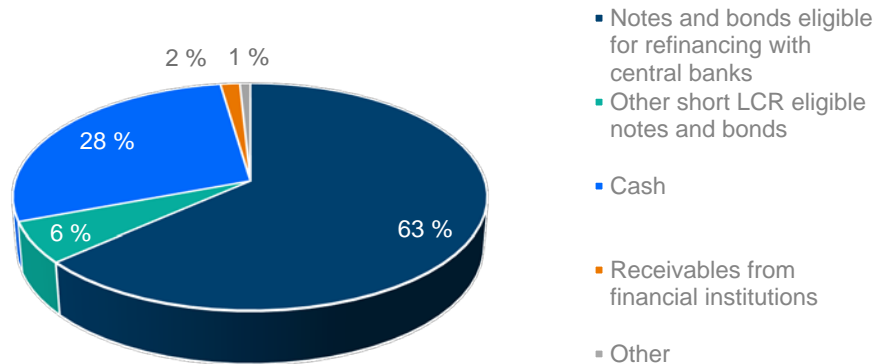
# Solid Liquidity Position



## Liquidity portfolio EUR 426.4 million as of 30.9.2019

- Equaling 13.2% of total assets
- Conservative investment policy
  - 96.7% of debt securities invested in at least 'AA-' rated instruments
  - 91.6% of debt securities are ECB repo eligible
- Only EUR denominated exposure
- Hypo's domestic MTN and CD programs support liquidity
- LCR 121.7% (122.6% ye2018)
- Liquidity covers wholesale funding cash flows for the following 38 months.

Liquidity Portfolio



# Outlook for 2019



# Future Outlook



*“Finnish economy grows at a slower pace but wages will grow going forward. Housing loan demand is supported by low and stable interest rates. Urbanization will continue and support the housing market and loan demand in growth cities, while areas with declining population will suffer and polarization will deepen. Newbuilding will increase the importance of the largest cities.*

*Hypo Group focuses on its core business areas and expects the share of profit made by them to continue to rise following the increase of net interest and net fee income. Capital adequacy continues to strengthen.*

*The operating profit for 2019 is expected to increase from 2018. The expectation contains uncertainties due to the development in economy and interest rates.”*



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