

Hypo Investor Update Financial Year 2019

Debt Investor Presentation
Unaudited release



Published on January 31, 2020

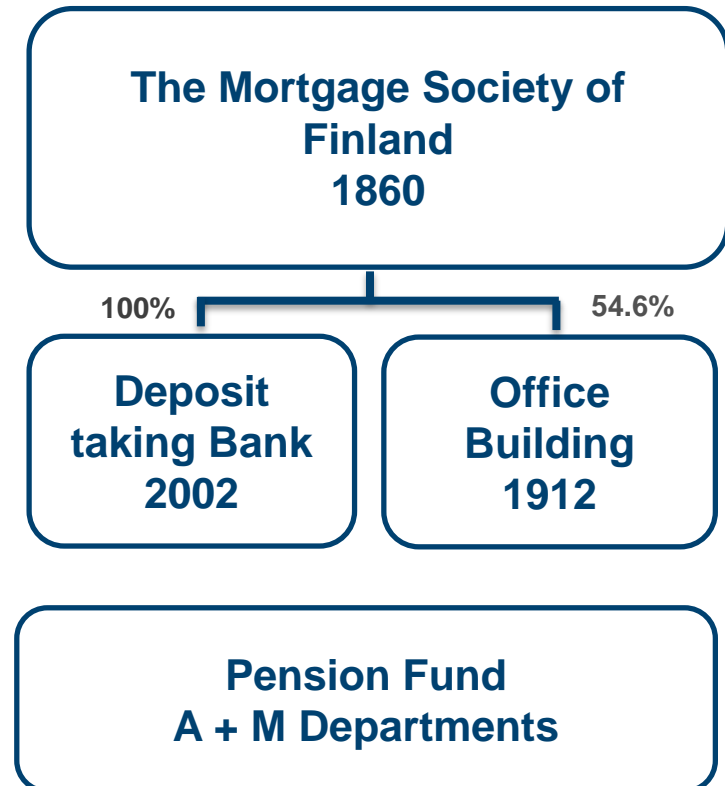


Secure Way for Better Living

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 vuonna...



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

Julkaisu: 19.3. @ 05

Jaa

Finanssivalvo Hypo:n Ari Paasilinen ennakoi enemmän asiakkaita.



Hypo:n 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

Hypo:n 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

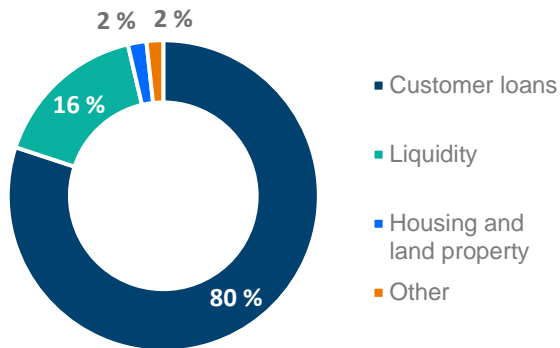
Financial Results



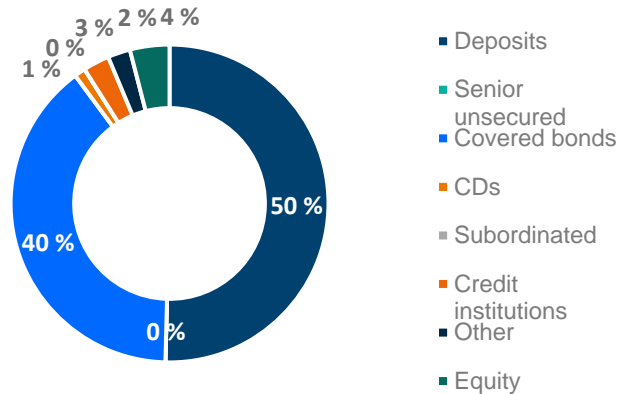
Strong Balance Sheet



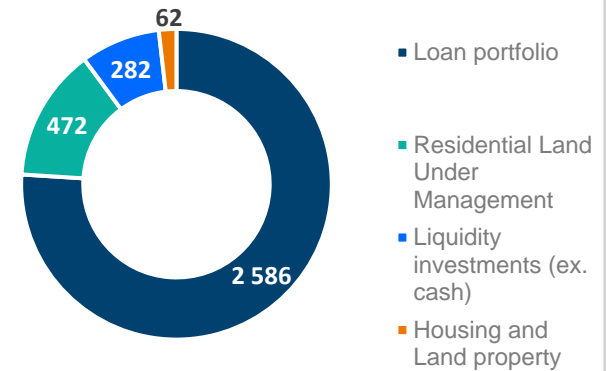
Total Assets



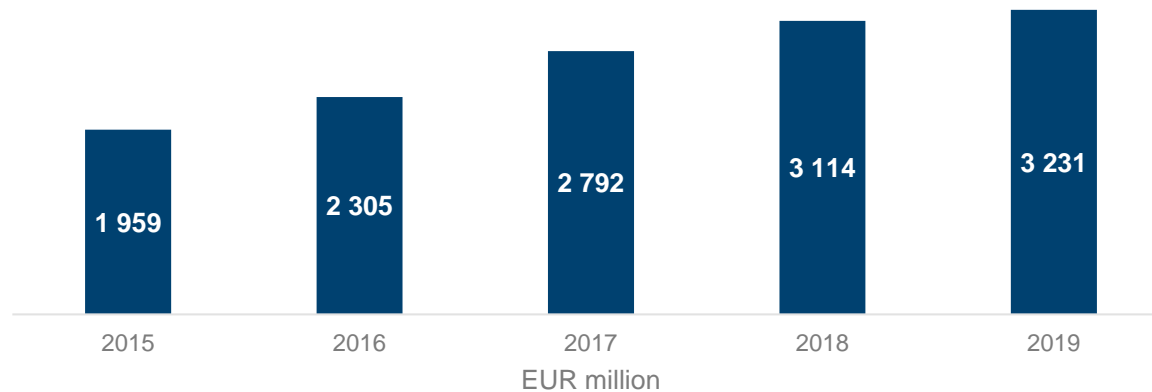
Liabilities and Equity



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



Balance Sheet Total

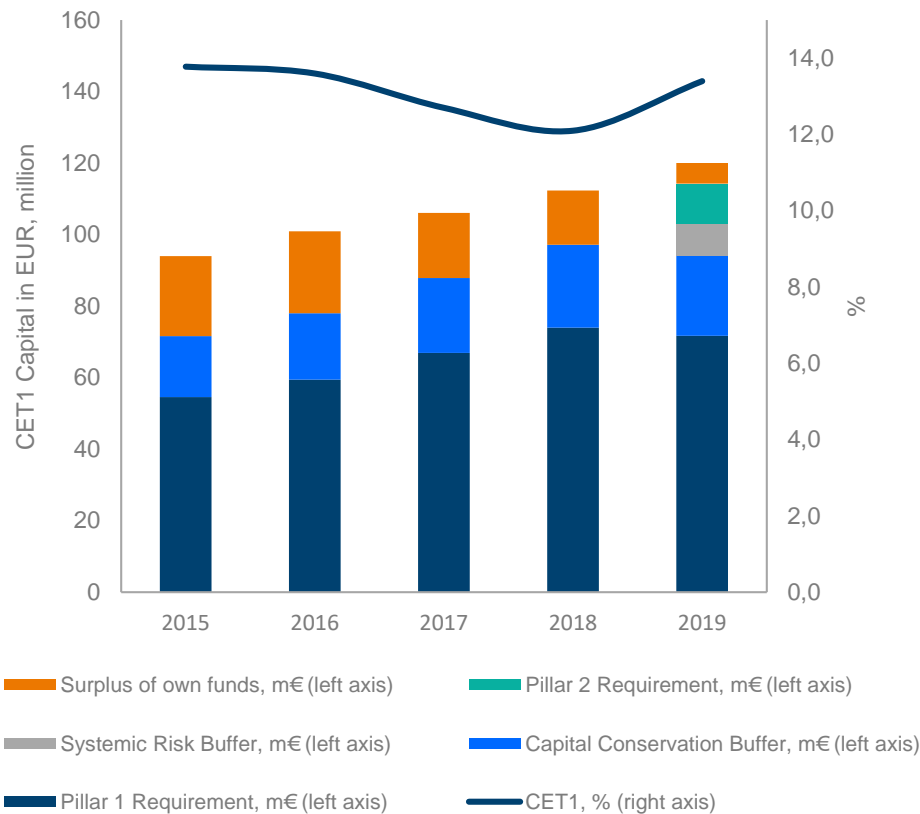


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Solid Capital Basel III Standard Approach

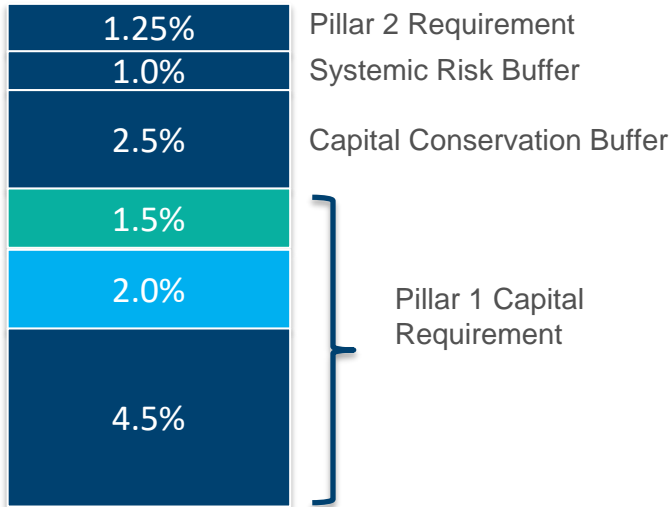


Capitalisation



- Mutual company: all profits retained and added to the core capital
- S&P's Risk Adjusted Capital 16.3% on 30.6.2019
- Total Capital Ratio (all CET1) 13.4%
- EUR 5.8 million of excess capital after
 - 8.0% Pillar 1 Requirement
 - 2.5% Capital Conservation Buffer
 - 1.0% Systemic Risk Buffer
 - 1.25% Pillar 2 Requirement
- EUR 5.0 million of hidden reserves in housing property (not marked-to-market) and EUR 4.6 million of surplus in Pension Fund
 - Inclusion into CET1 would raise the ratio to 14.2%
- 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"> • Entered into force on 1.7.2019 | |
| Pillar 2 Requirement | 1.25% |
| <ul style="list-style-type: none"> • Entered into force on 31.12.2019 | |
| → Total Capital Requirement | 12.75% |

Group Income Statement



| (EUR 1 000) | 2019 | 2018 | 2017 |
|--------------------------------------|--------------|--------------|--------------|
| Net Interest Income | 14 452 | 12 331 | 8 991 |
| Net Fee and Commission Income | 3 562 | 3 795 | 3 525 |
| Total Other Income | 2 689 | 2 097 | 5 190 |
| Total expenses | - 12 296 | - 11 058 | - 11 055 |
| Operating Profit | 8 407 | 7 165 | 6 651 |

- Net Interest Income continued to grow to EUR 14.5 million (EUR 12.3 million for January-December 2018) due to lower funding costs.
- Hypo Group's operating profit was EUR 8.4 million (EUR 7.2 million). Profitability of the core businesses increased.
- Net Fee and Commission Income totaled EUR 3.6 million (EUR 3.8 million).
- Total other income (incl. treasury operations and housing and residential land) amounted to EUR 2.7 million (EUR 2.1 million).
- Total expenses totaled EUR 12.3 million (EUR 11.1 million).

Group Key Financial Figures



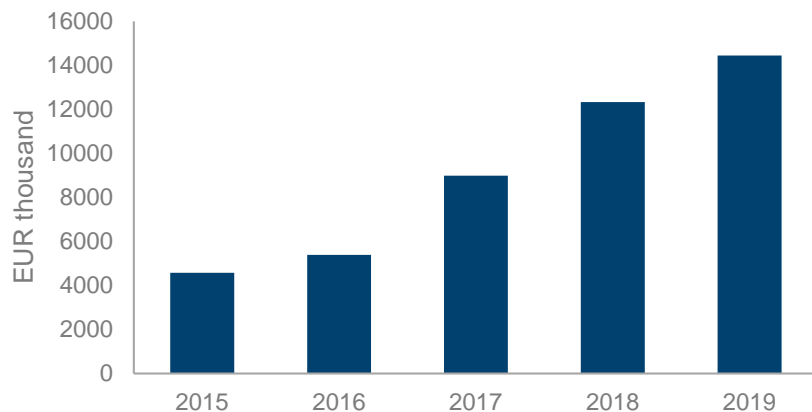
| | 2019 | 2018 | 2017 |
|--------------------------------|-------|-------|-------|
| Return on Equity (%) | 5.5 | 5.0 | 4.9 |
| Common Equity Tier 1 ratio (%) | 13.4 | 12.1 | 12.7 |
| Cost-to-income ratio (%) | 59.6 | 60.6 | 62.5 |
| Non-performing assets (%) | 0.10 | 0.07 | 0.14 |
| Loan-to-value ratio (%) | 35.3 | 35.8 | 37.4 |
| Loans-to-deposits (%) | 158.8 | 150.7 | 143.6 |
| Loan portfolio total (m€) | 2 586 | 2 589 | 2 213 |
| Balance sheet total (m€) | 3 231 | 3 114 | 2 792 |

- Total assets were EUR 3.2 billion and loan portfolio EUR 2.6 billion.
- CET1 ratio was 13.4% (12.1% on 31 December 2018) and the amount of equity increased to EUR 129.8 million (121.4 million).
- Group's financial position remained stable throughout the period.

Net Interest Income Increased Despite Low Interest Rate Environment

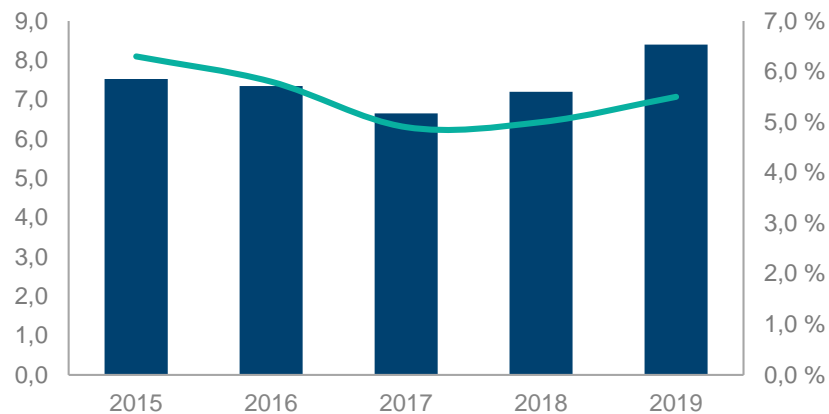


Net Interest Income

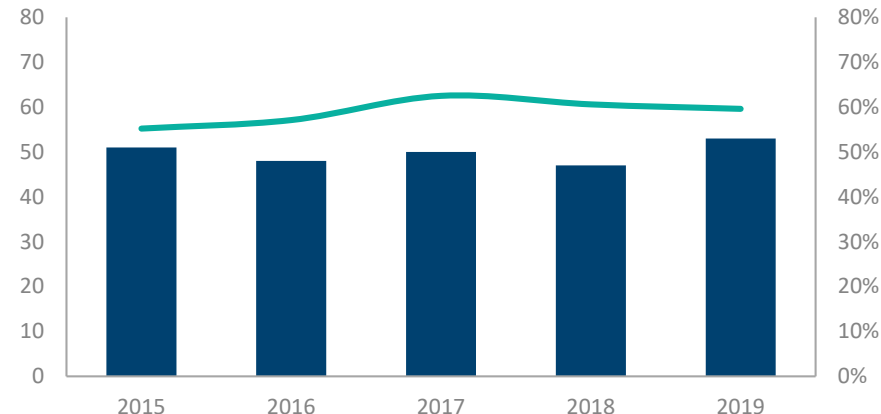


- Net interest income continued to grow to EUR 14.5 million (EUR 12.3 million) due to lower funding costs.
- Operating profit was EUR 8.4 million (EUR 7.2 million 1-12/2018)
- Cost-to-income ratio 59.6% (60.6% 1-12/2018)

Profitability



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



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

■ Number of employees — Cost-to-income ratio, %

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Hypo's Loan Book

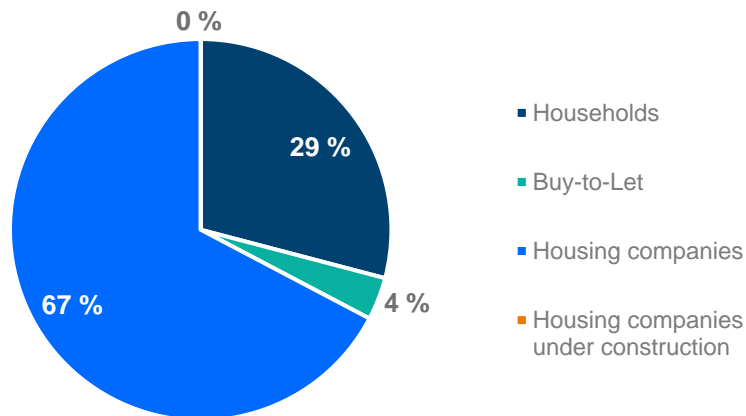


Loan Book Overview

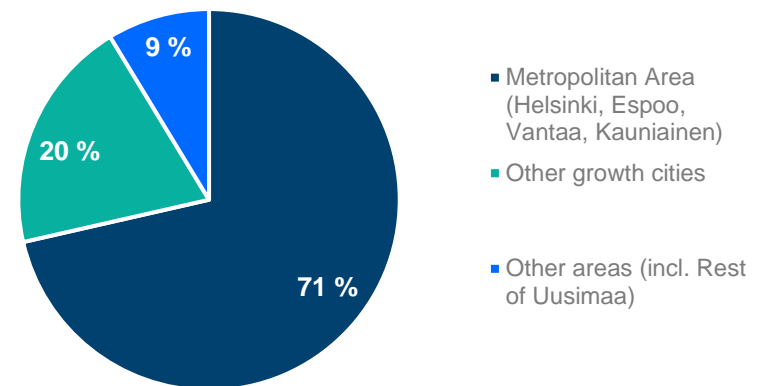


- Mortgage loans secured by residential property
- Collateral requirement is set in the Finnish Act on Mortgage Societies
- Two main customer groups
 1. Households: home mortgage, buy-to-let
 2. Housing companies: renovation loans, construction phase loans

Lending by Customer Type



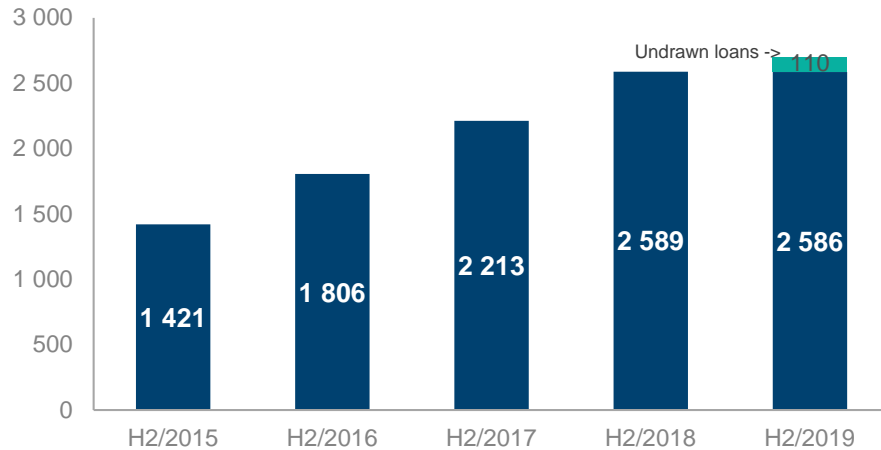
Loan Book by Customer Domicile



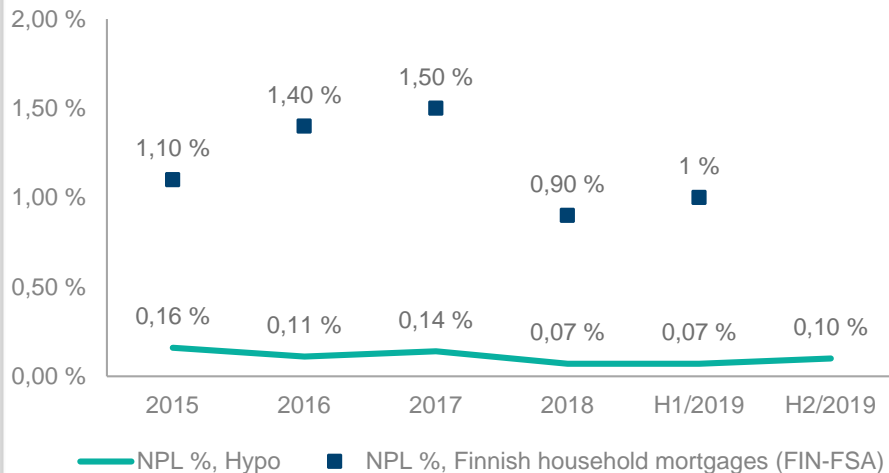
Loan Book Steady



Hypo Loan Book Total, m€



Non-performing Loans (%)



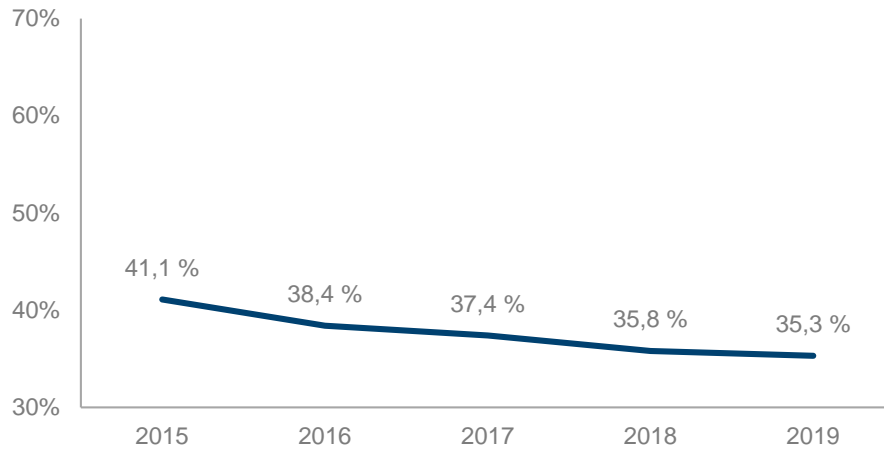
- Hypo's loan book was EUR 2 586 million
- Currently EUR 110 million undrawn loans
- All lending is against residential collateral
- Only EUR denominated lending
- All collateral is located in Finland
- Strategic concentration in the Helsinki Metropolitan Area and other specified growth areas
- Non-performing 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

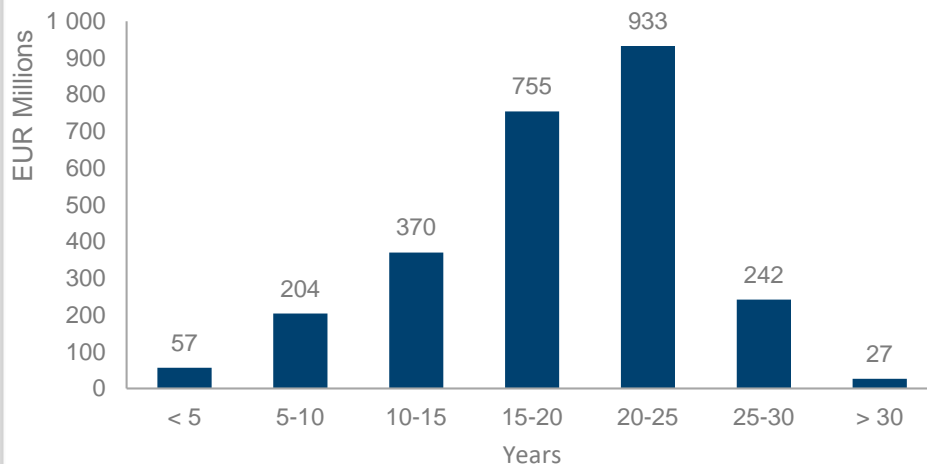


Hypo Loan Book Average LTV



- Hypo's loan portfolio is entirely secured by residential property
- The average LTV (loan-to-value) stable at 35.3%
- 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 31.12.2019 (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

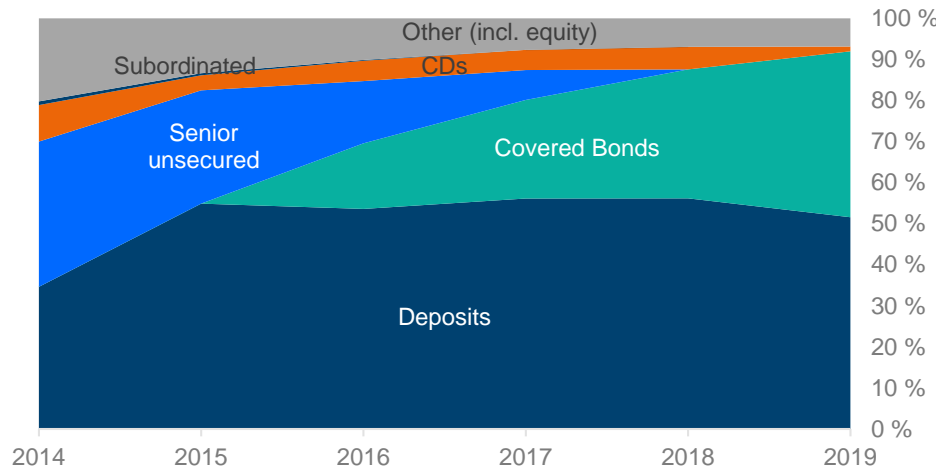


Maturity Profile - Long Term Wholesale Funding



- Deposits through the AsuntoHypoPankki subsidiary form currently ~52% of total funding
- Covered bonds currently ~40% of total funding
- Domestic CD program supports short term funding needs

Funding Structure



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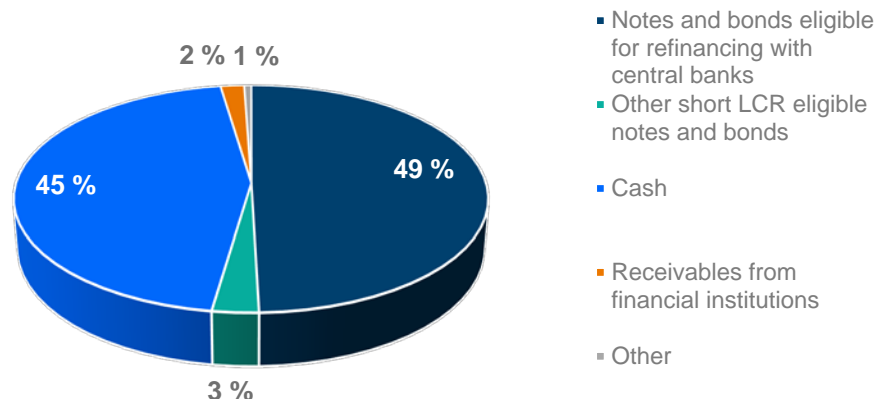
Solid Liquidity Position



Liquidity portfolio EUR 539.1 million as of 31.12.2019

- Equaling 16.7% of total assets
- Conservative investment policy
 - 100% of debt securities invested in at least 'AA-' rated instruments
 - 94.7% of debt securities are ECB repo eligible
- Only EUR denominated exposure
- Hypo's domestic MTN and CD programs support liquidity
- LCR 163.8% (122.6% ye2018)
- Liquidity covers wholesale funding cash flows for the following 38 months.

Liquidity Portfolio



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Outlook for 2020



Future Outlook



“The Finnish economy grows at a slower pace. Household income increases and employment stays stable. Housing loan demand is supported by low interest rates. Urbanization will continue and support the housing market and loan demand in growth cities. At the same time areas with declining population will suffer and polarization will deepen. Newbuilding will increase the importance of the largest cities.

Hypo Group focuses on renewal of core systems and strengthening its core business areas. We expect the share of profit from core businesses to continue to rise following the increase of net interest and net fee income. Capital adequacy continues to strengthen.

The operating profit for 2020 is expected to reach the level of 2019. The expectation contains uncertainties due to the development in economy and interest rates. ”

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