

# Hypo Credit Update 2Q2016

Investor Presentation

August 10, 2016



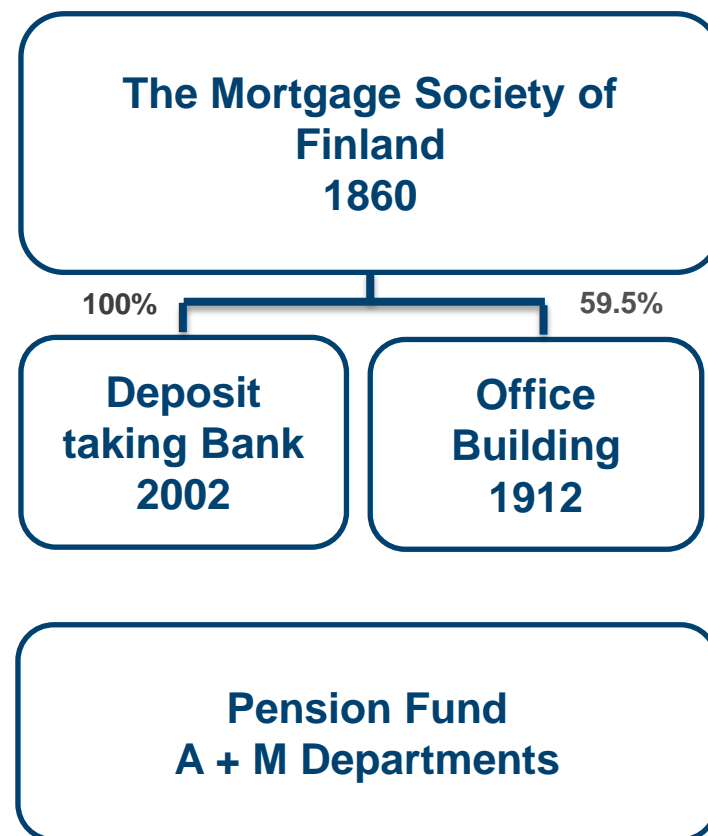


**Secure Way for Better Living**

# 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 0.24%)
- Well-known and frequent borrower in Finland
- Total assets EUR 2.15 billion
- S&P rating 'BBB/A-3'
  - The outlook is negative, reflecting S&P's view of the weak economic recovery in Finnish economy.





# Hypo is the Leading Debater on Finnish Mortgage Market

## Hypon Pauna: ASP remontoitava

Hypoteekkiyhdistyksen toimitusjohtaja Ari Pauna ehdottaa, että säästämisen voisi aloittaa 15-vuotiaana.

### ASP-säästäminen

ASP-säästämisen voima on 18-30-vuotiaiden henkilöiden alustavasti noin 50 prosenttia talonpoikaisten asunnoista. Myös asunot voivat ryhtyä yhdessä säästämiseen.

Tämä on herättänyt asiakkaita ASP-säästämiseen, joka suositellaan kaikkien vakuutusmaksujen yhteydessä. "Näin säästämällä, ettei järkevää ole ajatella, että joku ei ole säästänyt", Pauna sanoo.



## "Ei kaikkia munia asuntokoriin"

ASUMINEN - Jos perintönä on pelkkä vanha, arvonsa menettänyt lapsuudenkoti, voi olla, että perillisille ei olekaan järkevää ostaa se. Arvostusjohtaja Ari Pauna.



HS

Talouselämä

10.7.2013 klo 10:10

1 euro = 1,326 markkaa

0,37 - 0,76

## TALOUS

### Pikkuasuntojen kauppa käy

Helsingissä neljän kuukauden asunon myyntitaito on pidentynyt parilla viikolla.



**Asuntovarasuuden jakoon**

Asuntovarasuuden jakoon on aloitettu. Ennen varainsiirtoveron maksamista asunon omistaja on maksanut 4,4 prosenttia. Nyt se on 2,5 prosenttia.

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## Asuntovarasuuden isojako kiihtyy

Asuntokaupan hulluja vuosia on seurannut krapula. Harvoja hyötyjiä ovat pariutuvat sinkut.



**Teksti: Taina Viikola**

Asuntojen myynti on hidastunut merkittävästi. Ennen varainsiirtoveron maksamista asunon omistaja on maksanut 4,4 prosenttia. Nyt se on 2,5 prosenttia.

Asuntomarkkinat

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**Teksti: Taina Viikola**

Asuntomarkkinat ovat kiihtyneet. Ennen varainsiirtoveron maksamista asunon omistaja on maksanut 4,4 prosenttia. Nyt se on 2,5 prosenttia.

**Parempaan asumiseen turvallisesti**

Hyvä paikka on kalliimpi, mutta se on turvallisempi. Ennen varainsiirtoveron maksamista asunon omistaja on maksanut 4,4 prosenttia. Nyt se on 2,5 prosenttia.

**Asiantuntija: Suomi jakautumassa kahteen kastiin asuntomarkkinoilla**

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

Ennen varainsiirtoveron maksamista asunon omistaja on maksanut 4,4 prosenttia. Nyt se on 2,5 prosenttia.

8 | Talouselämä 22/2013 4



HYPO

## Financial Results

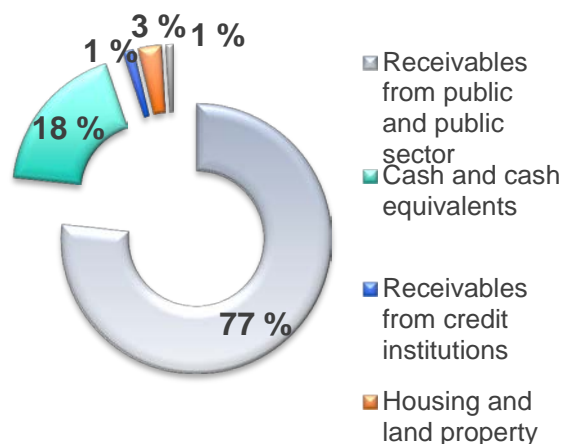


# Hypo Group Balance Sheet

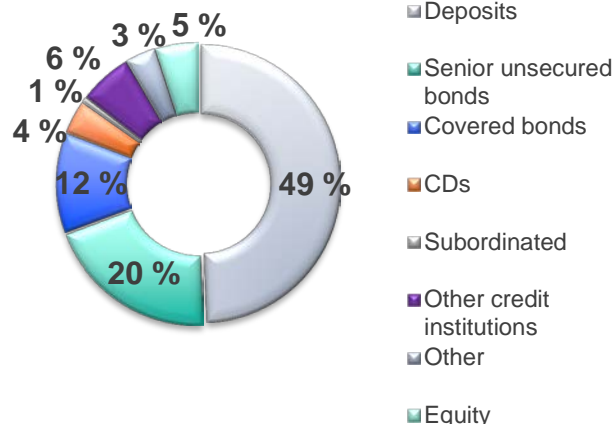
## EUR 2.15 billion as of 30.6.2016



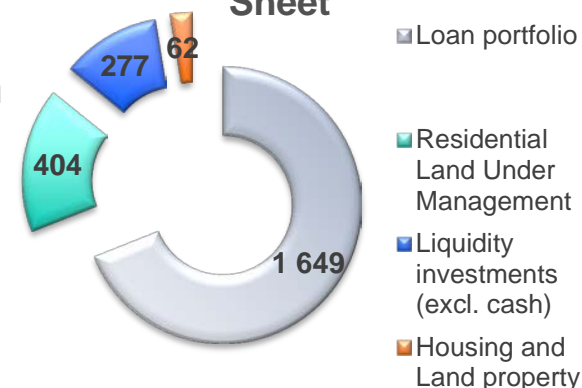
**Total Assets**



**Liabilities and Equity**

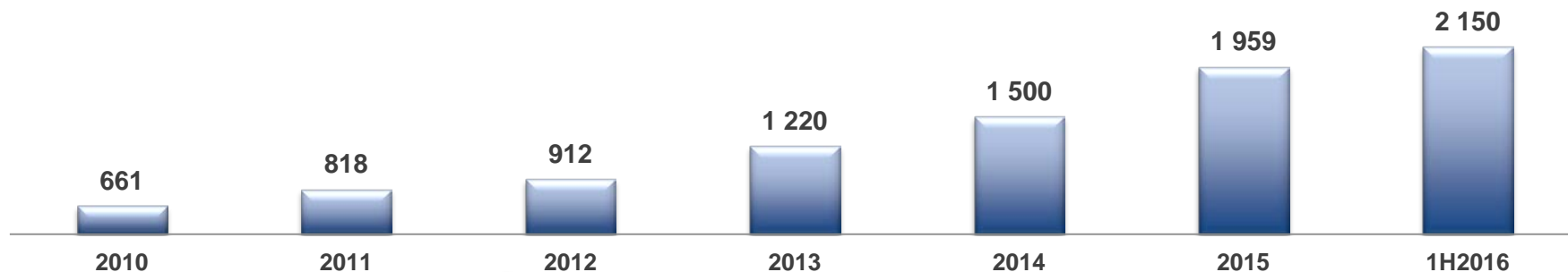


**Revenue Generating Assets  
(m€), On and Off Balance Sheet**



**Hypo Group Balance Sheet Total 2008-1H2016**

■ EUR million



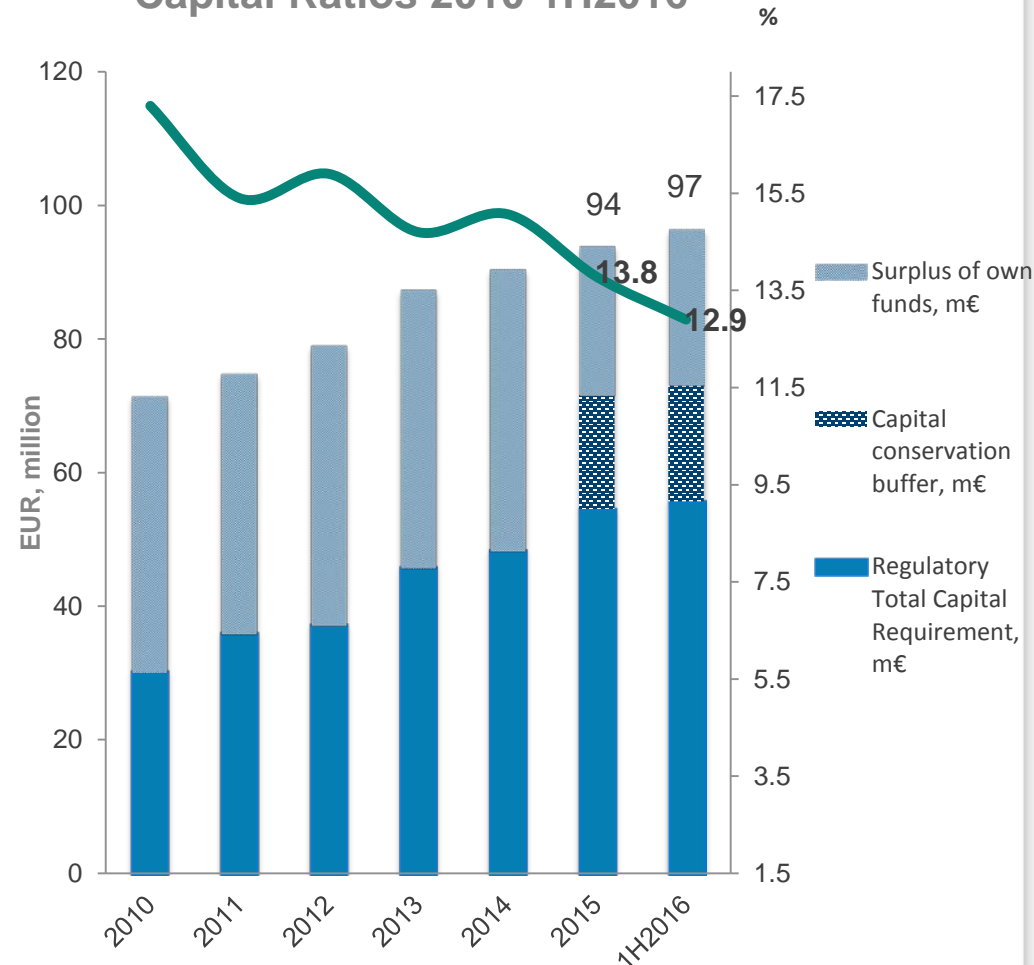
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# Solid Capital - Reporting Under Basel III Standardized Approach



- Common Equity Tier 1 at 12.9%
- Mutual company: all profits retained and added to the core capital
- S&P Risk Adjusted Capital ratio 18.6% as of 31.12.2015
  - Significantly higher than Finnish peers applying internal methods
- EUR 23.4 million of excess capital after
  - Regulatory TC requirement 8.0% + 2.5% Capital Conservation Buffer
- EUR 6.0 million of hidden reserves in housing property (not marked-to-market) and EUR 8.3 million of surplus in Pension Fund
  - Inclusion into CET1 would raise the ratio to 14.8%
- Basel III standard approach risk weights
  - Lending with Residential collateral: 35% risk weight
  - Housing and land investments: 100% risk weight

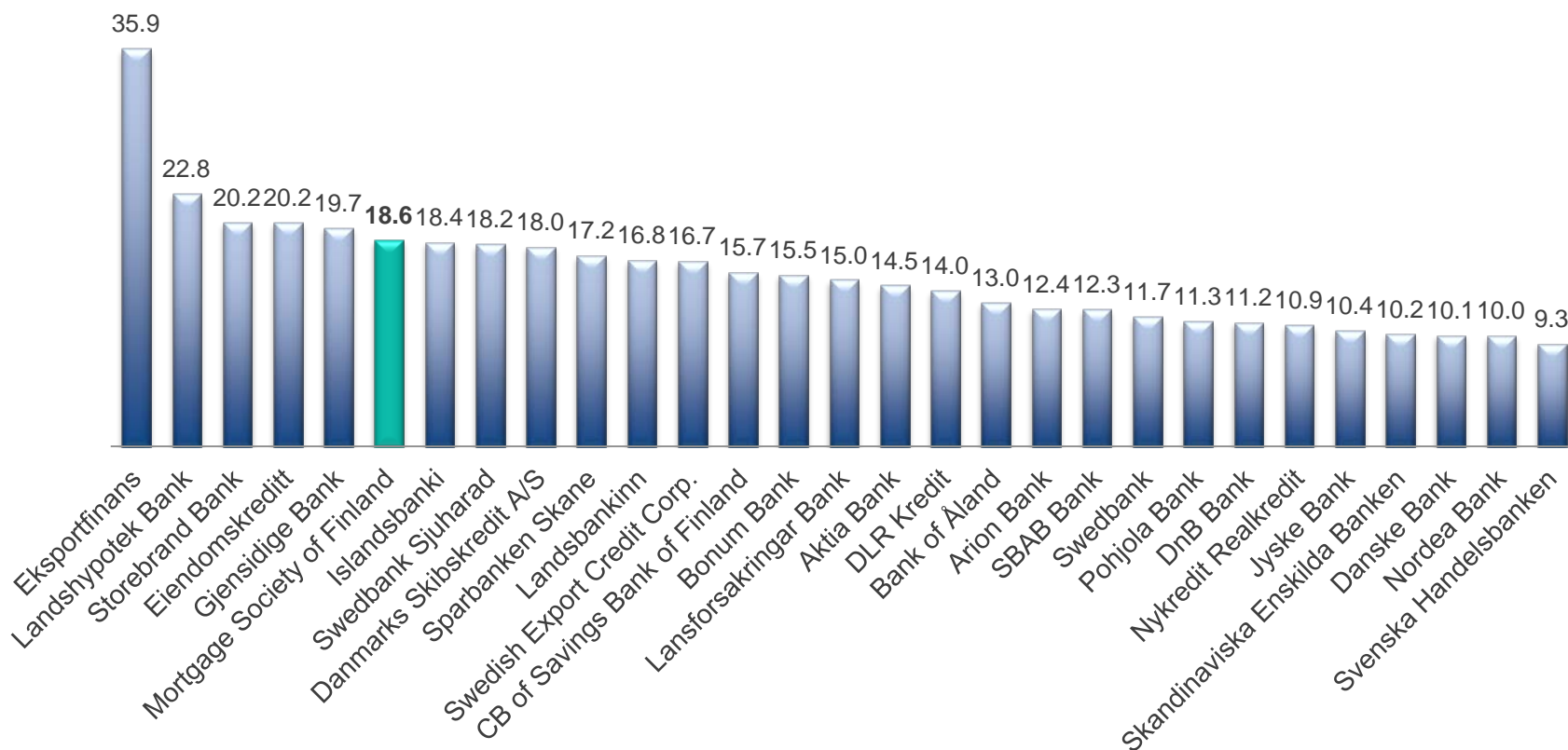
Capital Ratios 2010-1H2016



# Hypo's S&P Risk Adjusted Capital 'very strong' at 18.6% as of 31.12.2015



## S&P's Nordic RAC Ratios as of 31.12.2015





# Group Income Statement



(1000 €)	1H2016	1H2015	2015
<b>Net interest income</b>	2 049	2 537	4 574
<b>Net fee and commission income</b>	2 499	1 833	3 416
<b>Total other income</b>	5 179	3 975	8 681
<b>Total expenses</b>	-5 121	-4 105	- 9 149
<b>Operating profit</b>	<b>4 607</b>	<b>4 240</b>	<b>7 523</b>

- Hypo Group's operating profit before tax for 1H2016 increased to EUR 4.6 million (EUR 4.2 million 1H2015).
- NII decreased to EUR 2.1 million (2.5 million 1H15) due to low interest rate environment
- Net fee and commission income for the period increased to EUR 2.5 million (1.8 million 1H15).
- Total other income (incl. Treasury operations and investments in housing and residential land) increased to EUR 5.2 million (3.9 million 1H15)
- Total expenses increased to EUR 5.1 million (4.1 million 1H15)

# Group Key Financial Figures



	1H2016	1H2015	2015
<b>Common Equity Tier 1 ratio (%)</b>	12.9	14.4	13.8
<b>Cost-to-income ratio (%)</b>	52.6	49.5	54.9
<b>Non-performing assets, % of the loan portfolio</b>	0.24	0.24	0.16
<b>Loan-to-value ratio (%)</b>	39.6	43.0	41.1
<b>Loans-to-deposits (%)</b>	156	175	137
<b>Loan portfolio total (m€)</b>	1 649	1 309	1 421
<b>Balance sheet total (m€)</b>	2 150	1 700	1 959

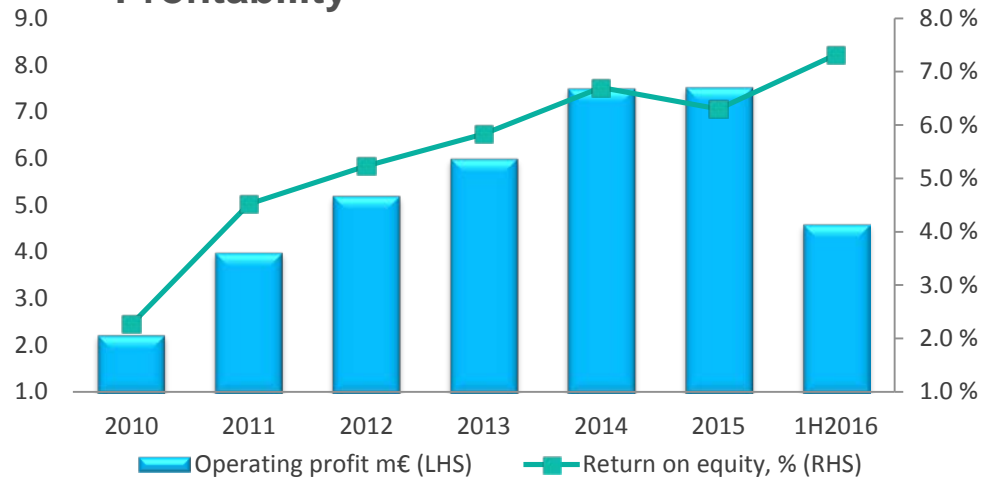
- Total assets increased to EUR 2.15 billion (EUR 1.96 billion ye2015)
- Loan portfolio increased to EUR 1.65 billion (1.42 billion 2015)
- CET1 ratio decreased to 12.9% (13.8%)
- Equity increased to EUR 106.4 million (EUR 101.6 million).
- Average LTV further strengthened to 39.6% (41.1%)
- Group's financial position remained stable throughout the period

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# Financial Performance - Stable Profitability Despite Lower Interest Rates

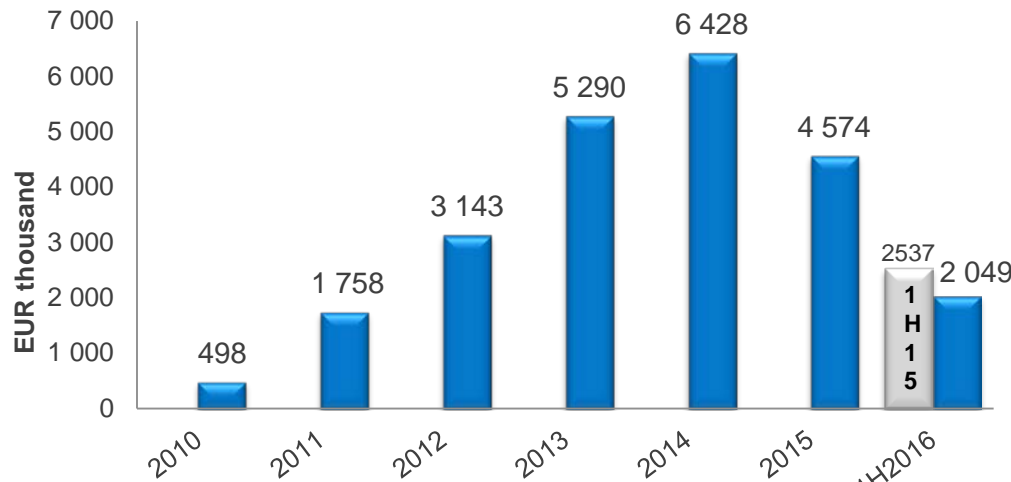


## Profitability

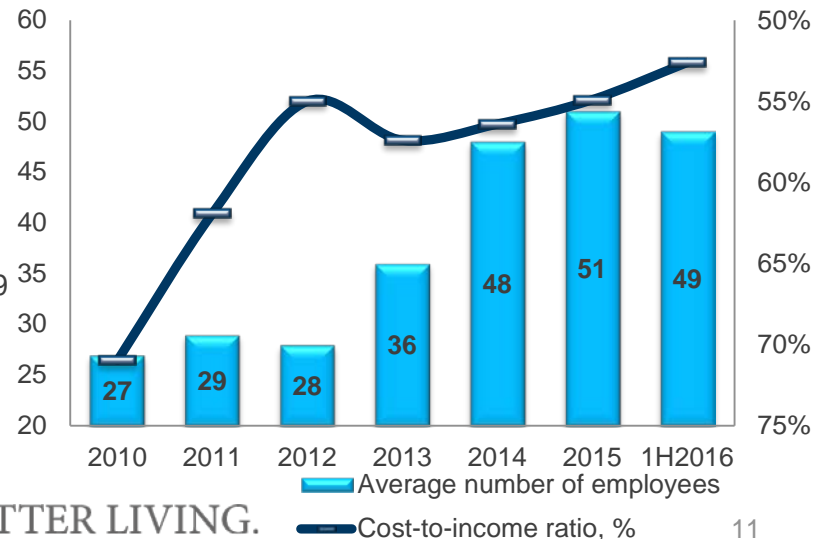


- Group's ROE stood at 7.3% (7.2% 1H2015)
- Operating profit for 1H2016 increased to EUR 4.6 million (4.2 million 1H15)
- Net interest income decreased to EUR 2.1 million (2.5 million) due to low interest rate environment and continued strengthening of liquidity
- Cost-to-income ratio was 52.6% (49.5%)

## Net Interest Income 2010-1H2016



## Cost-Income Ratio and Average Number of Employees



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## Hypo's Loan Book

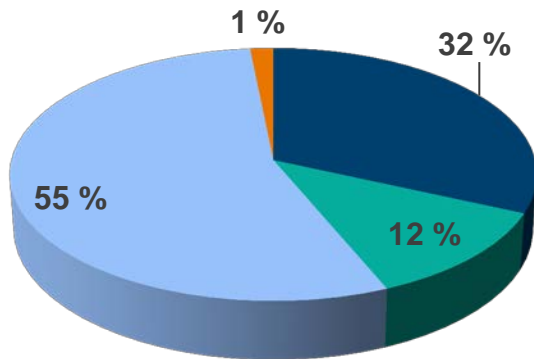


# Loan Book Overview



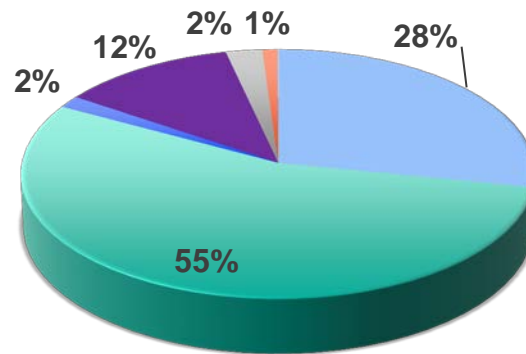
- Mortgage loans secured by residential property
- Collateral requirement is set in the Finnish Act on Mortgage Societies
- Two main customer groups
  - Private individuals and households: home mortgage, buy-to-let
  - Housing companies: renovation loans, construction phase loans

**Lending by Customer Type**



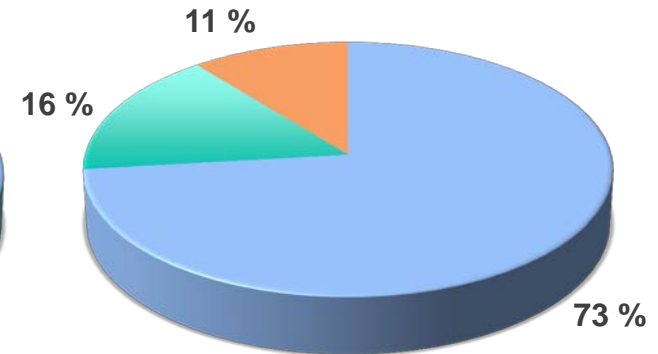
- Households
- Housing investors
- Housing companies
- Housing companies under construction

**Lending by Purpose of Use**



- Housing loans
- Housing companies
- Housing companies under construction
- Housing investors
- Reverse loans
- Consumer loan w/ residential collateral

**Loan Book by Customer Domicile**



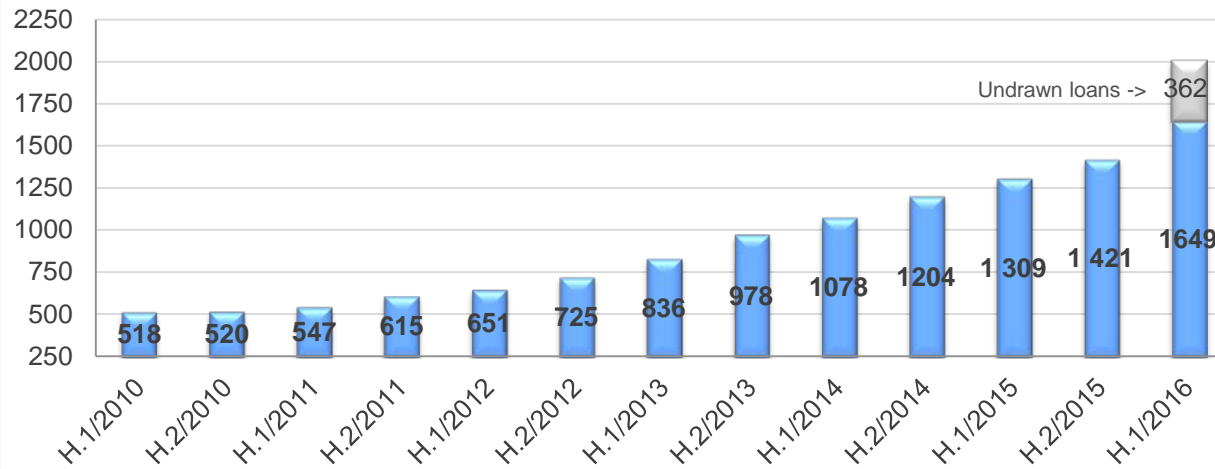
- Helsinki Metropolitan Area (Helsinki, Espoo, Vantaa, Kauniainen)
- Other growth cities
- Other areas (incl. Rest of Uusimaa)

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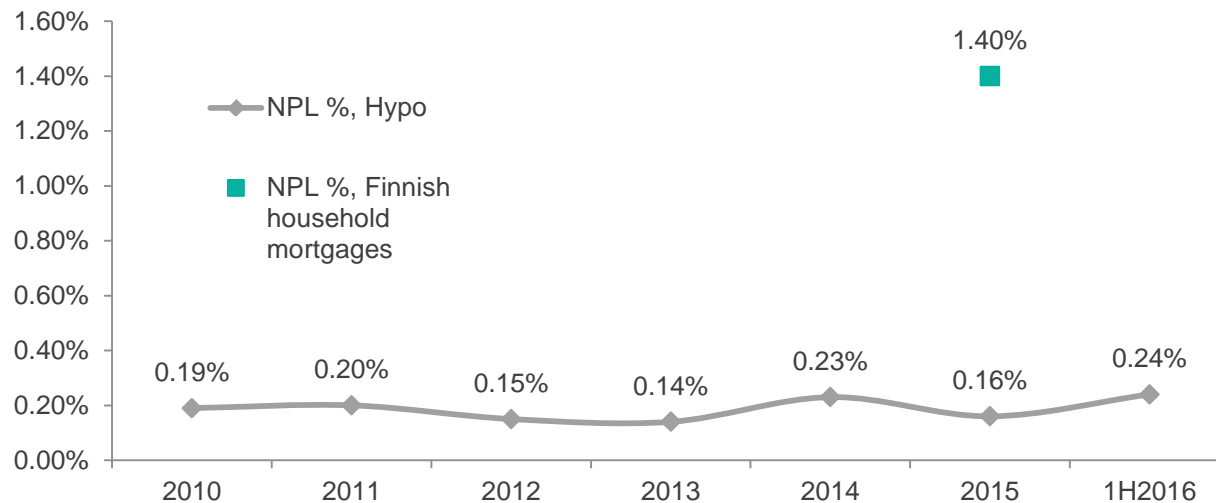
# Hypo Loan Book Growing Steadily



Hypo Loan Book Total, m€



Non-performing Loans (%)



- Hypo's loan book increased 16% during the first half, reaching EUR 1.65 billion (1.4 billion 2015)
- EUR 362 million of 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
- The amount of non-performing loans remain at very low level at 0.24% of the total loans
- The quality of the loan book well above the Finnish household mortgage average NPLs (1.4% 1Q2015)\*

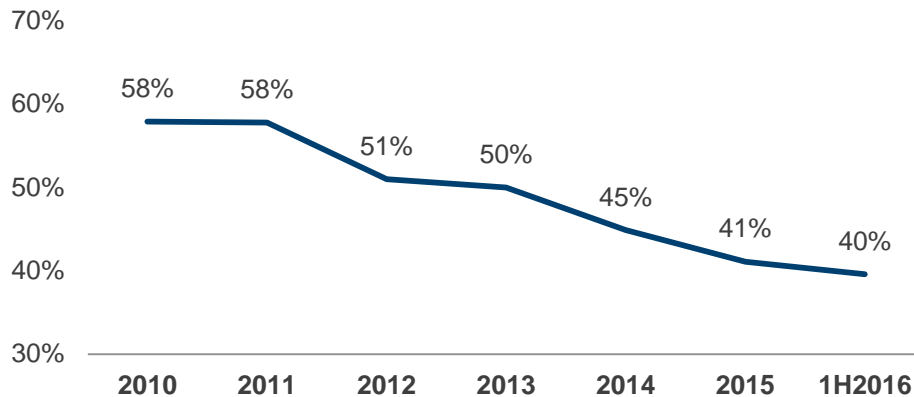
\*Source: FIN-FSA

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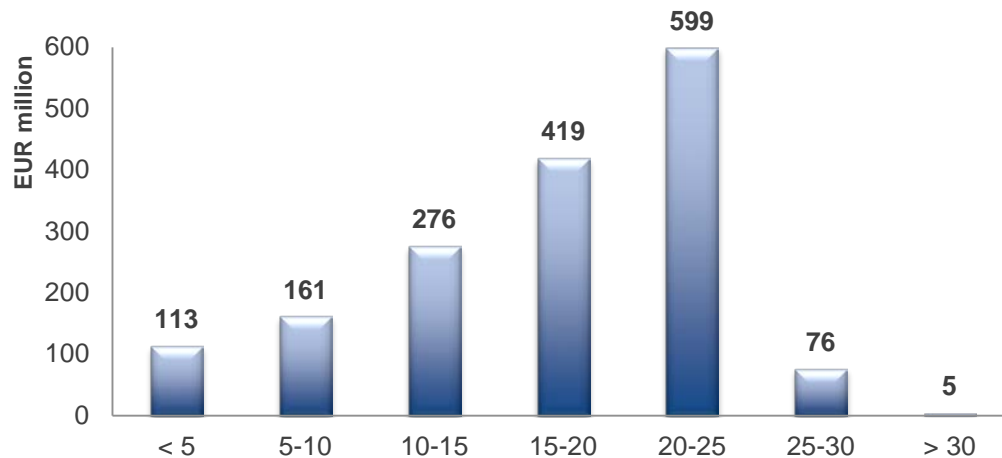
# Loan Book Quality Excellent



Hypo Loan Book Average LTV 2010-1H2016



Loan Book by Remaining Maturity (years) as of 30.6.2016



- Hypo's loan portfolio is entirely secured by residential property
- Almost 90% of loan book is 35% risk weighted
- The average LTV (loan-to-value) further improved to 39.6% (41.1% ye2015)
- 94% of the loans are amortizing and 6% bullets
- The average maturity of a loan at the time of withdrawal is 14 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



- Licence for mortgage banking activity since Jan. 29, 2016
  - Issuer is the Group Parent, no separate entity
  - First issue in May 2016
  - LCR level 2A eligibility
- 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
  - Bilateral loans
  - ECB repo counterparty

## Hypo's Outstanding Issues as of 30.6.2016 (original amount issued)

ISIN	Issue Date	Maturity Date	Type	Nominal Issued (m€)	Coupon
FI4000060322	14.2.2013	14.2.2017	Senior Unsecured	40	FRN 6M +1.10
FI4000076443	9.12.2013	9.12.2016	Senior Unsecured	100	FRN 6M +0.95
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

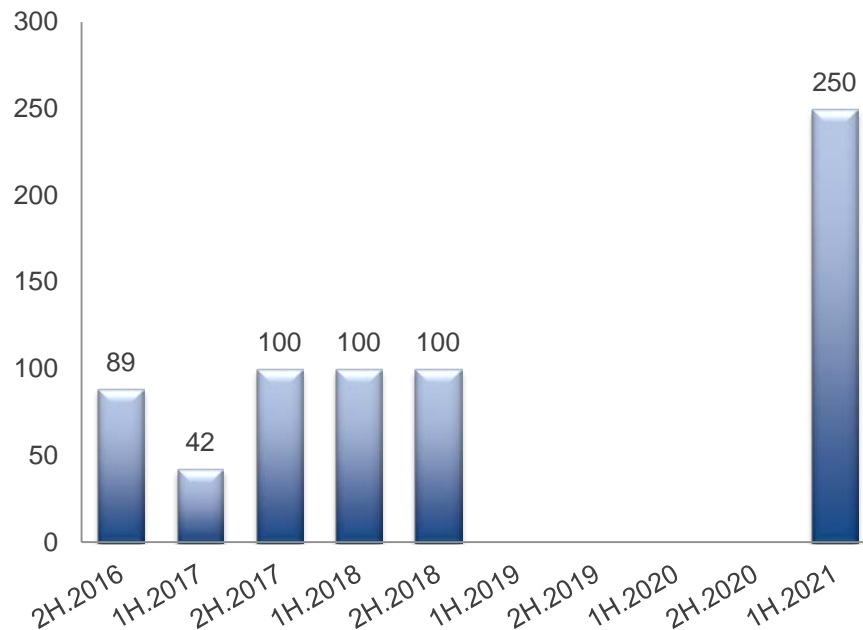
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# Diversified Funding Profile

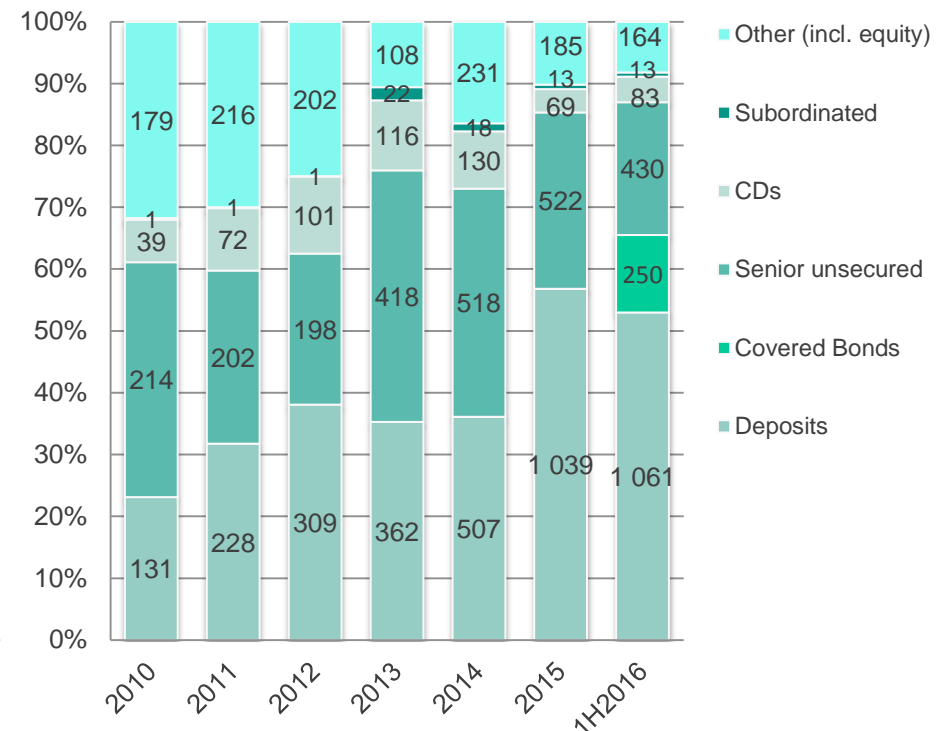


- Domestic Program for Senior Unsecured and Covered Bonds
- Solid strategy, solid financial performance
  - IFRS quarterly reporting, transparent and timely financial Information
- Deposit funding through the AsuntoHypoPankki subsidiary
  - >50% of total funding

**Senior Unsecured and Covered Bond  
Maturity Profile as of 30.6.2016**



**Funding Structure 2010-1H2016, m€**



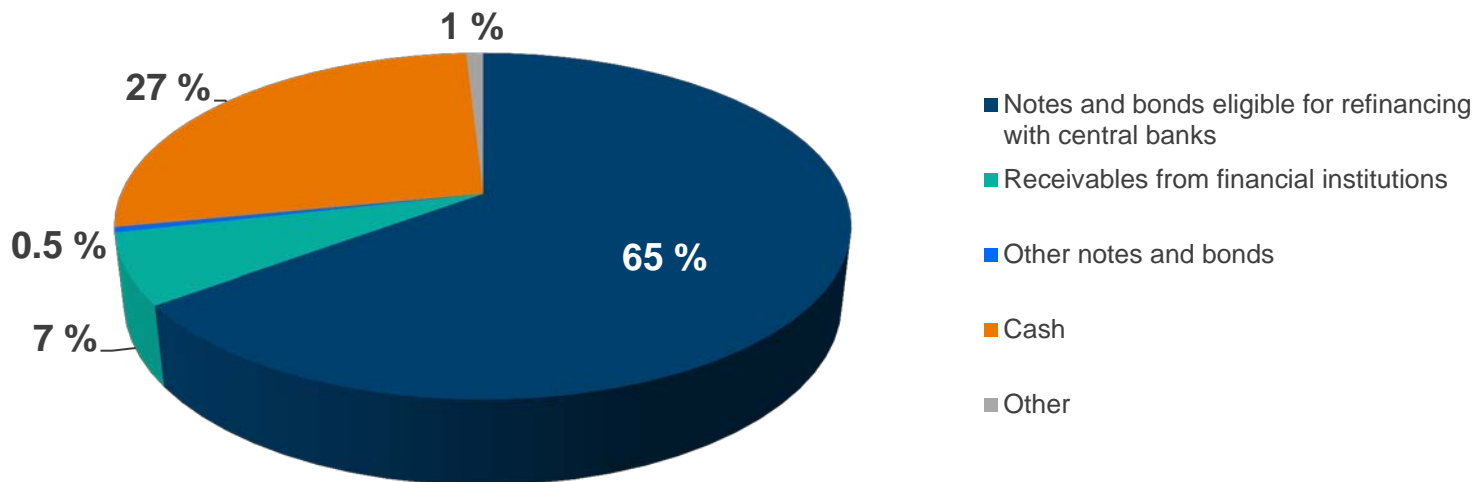
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# Solid Liquidity Position



- **Liquidity portfolio EUR 423 million as of 30.6.2016**
  - Conservative investment policy
  - 84% of debt securities invested in at least 'AA-' rated counterparties
  - 99% of liquidity portfolio investments ECB repo eligible
  - Only EUR denominated exposure
  - Hypo's domestic MTN and CD programs support the liquidity
  - Liquidity covers maturing wholesale funding for the following 23 months

**Liquidity portfolio as of 30.6.2016**





## Outlook for 2016



*“Uncertainties in global economy, especially in European economic development, have increased after Britain voted to leave the EU. We believe, however, that the first half year’s positive development in housing and mortgage markets will continue in the largest growth centres.*

*Group management estimates that the 2016 operating profit will reach 2015 levels.”*



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