

## Hypo Credit Update 4Q2016

**Investor Presentation** 

February 2, 2017

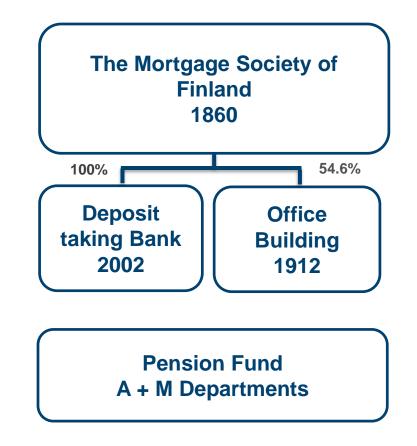


### **Secure Way for Better Living**

# 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 0.11%)
- Established and frequent issuer in Finland
- Total assets EUR 2.3 billion
- S&P rating 'BBB/A-3' (st.)



### S&P Issuer Credit Rating of Hypo: 'BBB/A-3'



An	chor Rating for Finnish Commercial Banks	a-		
1.	<ul> <li>Hypo business position</li> <li>Small-sized bank, concentrated niche market position</li> <li>Prudent approach in managing risks, restricted operations providing stability</li> </ul>	-2		
2.	<ul> <li>Hypo capital and earnings</li> <li>Very strong capital and earnings</li> <li>Retained earnings fully used for capital build-up</li> </ul>	+2		
3.	<ul> <li>Hypo risk position</li> <li>Moderate risk position due to concentration in risks</li> <li>Partly mitigated by conservative underwriting standards, prudent risk management and outstanding loan-loss track record</li> </ul>	-1		
4.	<ul> <li>Hypo liquidity and funding</li> <li>Well matched funding profile</li> <li>High loan-to-deposit ratio</li> </ul>	-1		
Ну	Hypo Credit Rating BBB			
•	The outlook is stable.			

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## Hypo is the Leading Debater on Finnish **Mortgage Market**

Bloait



27.10.16:00 Consti Group Plc's

laariin

January-Septemb

on 10 November 27.10. 15:56

Uutiset Pörssi Yritykset Keskustelu

Hypo: Suurin vastuu asuntokuplasta on ŵ vuokranantajilla ja heidän rahoittajillaan 16.1 2016 8-00 | Päivitetty 16 1 2016 16-35

### Consti Yhtiöt Ovi:n osavuosikatsaus 1-9/2016 julkistetaan 10.11.2016 klo 8.30

#### Ericssonin ongelmat **TALOUS** 27.10, 15:49 Pikkuasuntojen kaupp Nissan ei pelästynyt b valmistus jatkuu Su avantiaika on pidentynyt parilla viika 27.10.15:4

#### Nykynuorten eläkei 27.10, 15:40 **REUTERS:** Copper hits Chinese demand hopes LUETUIMMAT Tänään 10.38 Tutkijat: Saimme avaruudesta Tänään 8.05 Nokian tulos selvästi

Tänään 12.30 Nokian tulos hämm liikevoitto 55 vai 556 m Hypon Pa ASP remo

Hypoteekkiyhdistyksen toimitusjohtaja Ari Pauna ehdottaa, että säästämisen voisi aloittaa 15-vuotiaana. Antti Lehmusvirta anni lehmosvina 8 kauppalehni h

Asuntalainojen omarahoitusosuudet ovat karanneet monen ulottumattomiin. Esimerkiksi Helsingis sä kymppitonnin säästöillä on lähdettävä pääkaupunkiseudun äärilaidoille asuntoja etsimään. Hypoteekkiyhdistyksen toimituziohtaja Ari Pauna tarjoza ennak-

kosiäistämisen lieikkeeksi asi ntosäästöpalkkiojärjestelmän (4519) Hyppy omistus asumispe ulle undistamista. vastii joko hyvin pitkäjänteistä ennakkosäästämistä tai vanheerpien

tukseen tulevan osuuden hinnasa.

Tallelusten tulee of a 150-300m

Mahdellista saada valtion korkdu

kea asuntolainaan.

intiset Asuntovarallisuuden ASUNTOMARKKINAT isojako kiihtyy Asuntokaupan hulluja vuosia on seurannut krapula.

Harvoja hyötyjiä ovat pariutuvat sinkut.



Teksti Taina Vuokko

bintatasot pitäisi tarkistaa vast maan nykyillannetia. "Asuntomarkkinat ovat muu meet merkintävästä väimeisen k menen vuoden aikana, motta s tämisen alaikäraja on ollut san

vuosikymmeniä." Julkisuudessa on käyty kei telua, enkokeke ASP-järjesteli tarvetta, Nykytilanteessa AS jestelmän supistaminen tai

taminen johtalsi Paunan mi silben, etiä "vain rikkaiden l on varias emaan asunteen".

ASUNTOJEN MYYNTI on hidastunut merkittävästi. Ennen varainsiirtoveron maaliskuista korotusta asunnot vaihtoivat omistajaa, mutta sen jälkeen asuntokauppa törmäsi tiiliseinään.

Kiinteistönvälitysalan Keskusliiton mukaan kauppamäärät vähenivät kymmenen prosenttia tammi-kesäkuussa verrattuna viime vuoden vastaavaan ajankohtaan. Suomalaiset kotitaloudet ovat Suomen Pankin

mukaan ottaneet entistä vähemmi vaivaa krooninen asun "Kasvukeskusten pienet kerrostaloasunsa asunnoilta taas uhka not menevät yhä kaupaksi, mutta suurnen arvo. ten perheasuntojen kauppa on seisoksissa. Kun myynti hyytyy, Asuntomarkkinat ovat yhä voimakkaammin sa ovat kaupunkilaiset s eriytyneet eri paikkakuntien ja asuntotyypvät lyödä hynttyyt yhter pien mukaan", asuntolainoihin erikoistuisunnot saa helposti k neen Hypoteekkiyhdistyksen toimitusjohasunnoissa on tällä het

taja Ari Pauna sanoo Asuntomarkkinoilla on Ari Paunan muiontaa Heikoimmassa asem kaan käynnissä asuntovarallisuuden isoja-

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muntolainoia.





Työmarkkinoiden vähittäinen toipumir luottamuksen vahva nousu ja parin edeParempaan asumiseen syntynyt muuttovaje ovat rohkaisseet kurvallisesti asuntokaupoille", sanoo Hypon pääekor Brotherus.





Meri on nainen

ajokorttikuvasta

"Ei kaikkia munia

HYPO

Normandian maihin-

noususta 70 vuotta

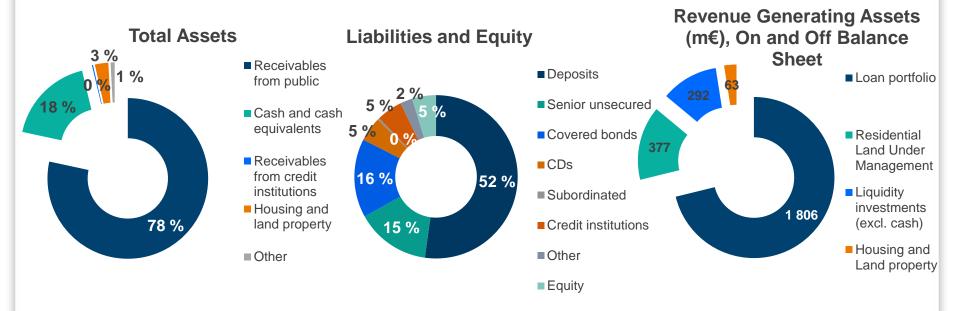




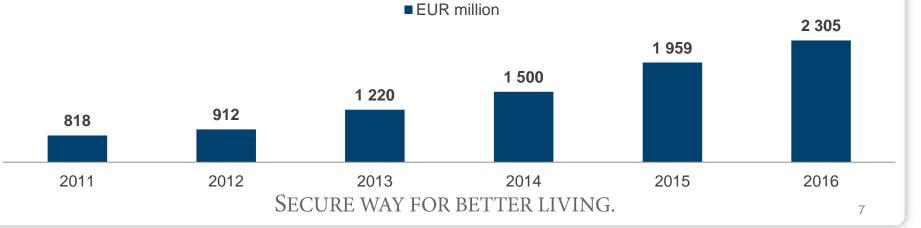
### **Financial Results**

# Hypo Group Balance Sheet EUR 2.3 billion as of 31.12.2016





### Hypo Group Balance Sheet Total 2011-2016



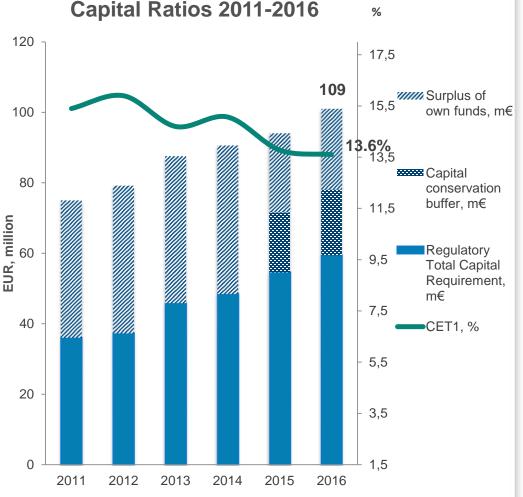
# Solid Capital - Reporting Under Basel III Standard Approach

Common Equity Tier 1 at 13.6%

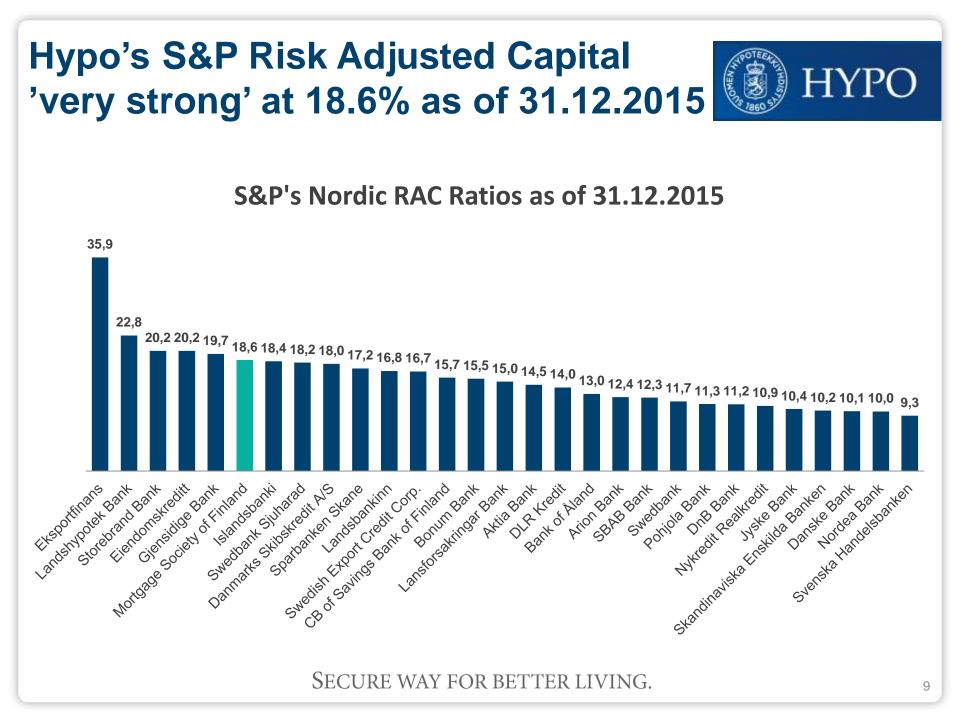
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- Mutual company: all profits retained and added to the core capital
- S&P Risk Adjusted Capital ratio 18.6% as at 31.12.2015
  - Significantly higher than Finnish peers applying internal methods
- EUR 22.9 million of excess capital after
  - 8.0% Regulatory TC requirement
     2.5% Capital Conservation Buffer
- EUR 6.1 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 14.8%
- Basel III standardized approach risk weights
  - Lending with Residential collateral: 35% risk weight
  - Housing and land investments: 100% risk weight





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# **Group Income Statement**

(EUR 1 000)	2016	2015
Net Interest Income	5 386	4 574
Net Fee and Commission Income	4 439	3 344
Total Other Income	7 924	8 667
Total expenses	-10 403	- 9 141
Operating Profit	7 347	7 444



- Hypo Group's operating profit before tax stabilized to EUR 7.3 million (EUR 7.4 million 2015).
- Despite low interest rates, NII increased by 18% to EUR 5.4 million (4.6 million 2015) due to successful diversification of funding instruments
- Net fee and commission income for the period increased to EUR 4.4 million (3.3 million).
- Total other income (incl. Treasury operations and investments in housing and residential land) decreased to EUR 7.9 million (8.7 million)
- Total expenses increased to EUR 10.4 million (9.1 million)

# **Group Key Financial Figures**

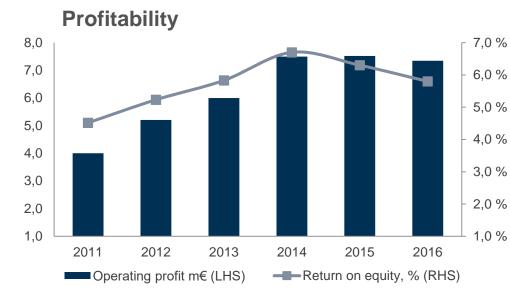


	2016	2015
Common Equity Tier 1 ratio (%)	13.6	13.8
Cost-to-income ratio (%)	57.1	55.2
Non-performing assets, % of the loan portfolio	0.11	0.16
Loan-to-value ratio (%)	38.4	41.1
Loans-to-deposits (%)	150	137
Loan portfolio total (m€)	1 806	1 421
Balance sheet total (m€)	2 305	1 959

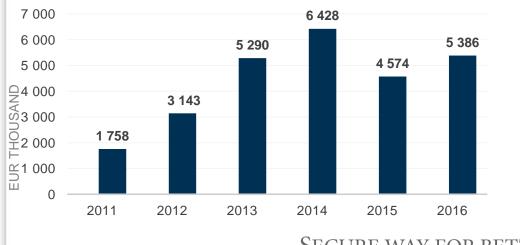
- Total assets increased to EUR 2.3 billion (EUR 1.96 billion 2015)
- Loan portfolio increased to EUR 1.8 billion (1.4 billion 2015)
- CET1 ratio decreased to 13.6% (13.8%)
- Amount of equity increased to EUR 108.8 million (EUR 101.5 million).
- Average LTV further strengthened to 38.4% (41.1%)
- Group's financial position remained stable throughout the period SECURE WAY FOR BETTER LIVING.

### Financial Performance – Net Interest Income Improved Despite Low Interest Rates



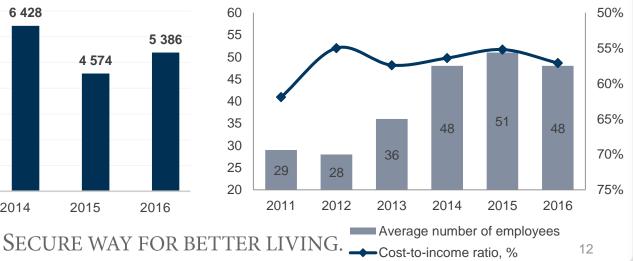


#### Net Interest Income 2011-2016



- Group's ROE lowered to 5.8% (6.7% 2015)
- Net interest income increased to EUR 5.4 million (4.6 million) due to successful diversification of funding sources
- Operating profit for 2016 stabilized to EUR 7.3 million (7.4 million)
- Cost-to-income ratio increased to 57% (55%) due to

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





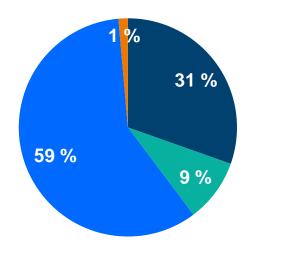
Hypo's Loan Book

## Loan Book Overview

• Mortgage loans secured by residential property

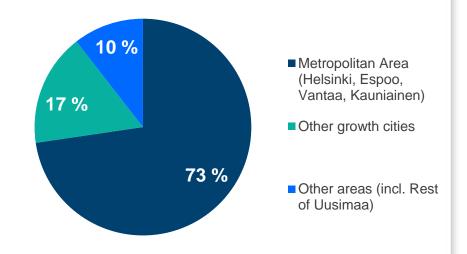
Lending by Customer Type

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



### Households

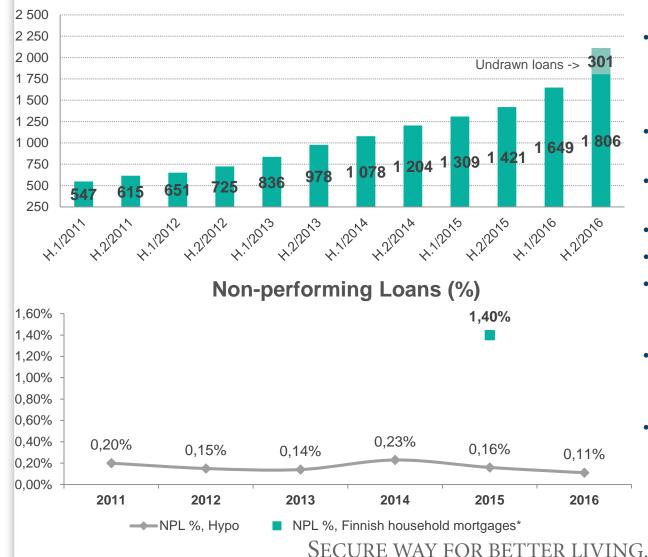
- Housing investors
- Housing companies
- Housing companies under construction



#### Lending by Customer Domicile



# Hypo Loan Book Growing Steadily

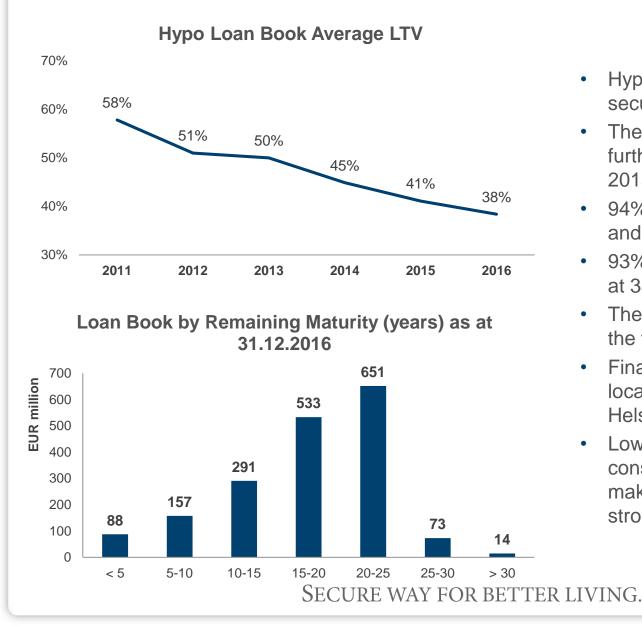


### Hypo Loan Book Total, m€



- Hypo's loan book increased 18% during 2016, reaching EUR 1.8 billion (1.4 billion 2015)
- Currently EUR 301 million
   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
- Non-performing loans remained very low at 0.11% of the total loans
- The quality of the loan book well above the Finnish household mortgage average NPLs (1.4% 1Q2015)\*

# Loan Book Quality Excellent



HYPOTEER HYPOTEER HYPOTEER

- Hypo's loan portfolio is entirely secured by residential property
- The average LTV (loan-to-value) further improved to 38.4% (41.1% 2015)
- 94% of the loans are amortizing and only 6% bullets
- 93% of loan book is risk weighted at 35% or lower
- 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



## Funding and Liquidity

# **Funding Strategy**

- Licence for mortgage banking activity since Jan. 29, 2016
  - No separate entity, issuer is the group parent
  - Larger issues (>250 million) LCR level 2A eligible
- 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
  - ECB repo counterparty
  - Bilateral loans

#### Outstanding Issues as of 31.12.2016 (original amount issued)

ISIN	Issue Date	Maturity Date	Туре	Nominal Issued (m€)	Coupon
FI4000060322	14.2.2013	14.2.2017	Senior Unsecured	40	FRN 6M +1.10
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
FI4000206966 (tap)	27.9.2016	10.5.2021	Covered	50	Fixed +0.25
FI4000232855	7.12.2016	7.12.2022	Covered	100	Fixed +0.25





# **Well Diversified Funding Profile**



100 %

- Domestic Program for the Issuance of Senior Unsecured and Covered Bonds
- Deposit funding through the AsuntoHypoPankki subsidiary
  - >50% of total funding
- Domestic CD program for short term funding
- Possibility to participate in the ECB market operations

### Wholesale Funding Maturity Profile as of 31.12.2016

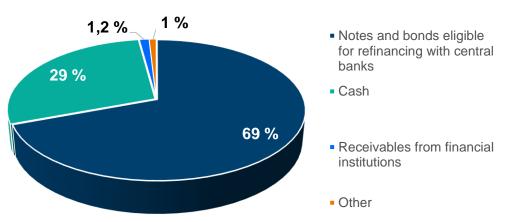
#### Other (incl. equity) 90 % 350 oordinated 300 80 % **CDs** 300 70 % 250 Covered 60 % Senior Bonds unsecured 200 50 % 40 % 150 104 100 104 100 30 % 100 20 % 60 **Deposits** 42 50 10 % 20 Ω 0% 17 21.2017 21.2018 2018 2019 21.2019 21.2020 21.2020 21.2021 2021 2022 21.2022 21.2022 21.2022 2011 2012 2013 2014 2015 2016 SECURE WAY FOR BETTER LIVING. 19

#### Funding Structure 2011-2016

# **Solid Liquidity Position**



- Liquidity portfolio EUR 421 million as of 31.12.2016
  - Equaling 18.3% of total assets
  - Conservative investment policy
    - 92% 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 programs support the liquidity
  - LCR 144% (128% 2015)
  - Liquidity covers maturing wholesale funding for the following 23 months



### Liquidity Portfolio as at 31.12.2016

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Outlook for 2017





"The positive development of Finnish economic growth will continue during 2017. The positive development would be hindered should the uncertainties in the European and world economies realize. The urbanization in Finland continues and supports the housing and mortgage markets in the biggest growth centers.

Group management estimates that the net interest income continues its positive development in 2017 and the 2017 operating profit will reach the 2016 levels."



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#### www.hypo.fi/en/investor-relations

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