

**Investor Presentation** 

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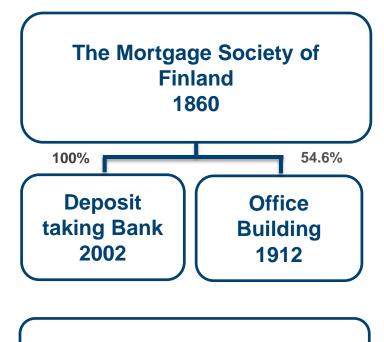


**Secure Way for Better Living** 

## **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 0.12%)
- Established and regular issuer in Finland
- Total assets EUR 2.4 billion
- S&P rating 'BBB/A-2' (st.)



Pension Fund A + M Departments

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



An	chor Rating for Finnish Commercial Banks	а-	
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	
Hypo Credit Rating BB			

The outlook is stable.

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



johtaja Ari Pauna ehdottaa, että säästämisen voituleseen tulevan osusden hirmasa. si aloittaa 15-vuo-Talletusten tules of a 150-3004 Mahdollista saada valtion korkdu tiaana.

Antti Lehmusvirta anni lehmosvina § kauppalehti å

Asuntolainojen omarahoitusosuukoskistämisen lääkkeeksi ası ntosäästöpalkkiojärjestelmän (ASP) det ovat karanneet monen ulottumattomiin. Esimerkiksi Helsingissā kymppitonnin sāāstöillā on lāh-Hyppy omistus a sumispe ulle destāvā pāškaupunkiseudun āšnivastii joko hyvin pitkäjänteistä ennakkosäistämistä tai vanheergien

lzidoille asuntoja etsimään. Hyputeekkiyhdistyksen toimitusjohtaja Ari Pauna tarjoza etteak

Hypo: Suurin vastuu asuntokuplasta on vuokranantajilla ja heidän rahoittajillaan

> Asuntovarallisuuden isojako kiihtyy vasta alkanut - syrjäseuduilla

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

ASUNTOJEN MYYNTI on hidastunut merkit-

tävästi. Ennen varainsiirtoveron maaliskuis-

ta korotusta asunnot vaihtoivat omistajaz,

mutta sen jälkeen asuntokauppa törmäsi tii-

Kiinteistönvälitysalan Keskusliiton mu-

viime vuoden vastaavaan ajankohtaan. Suo-

hintatasot pitäisi tarkistaa vast maan nykyiilannetia. "Asuntomarkkinat ovat muu

meet menkittävästä väimelsen k menen vuoden aikana, mutta s therison alaikhraja on other san vuosikymmeniä." Julkisuudessa on käyty kes

telua, ankokoko ASP järjesteli tarvetta, Nykytilanteessa AS jestelmän supistaminen tai taminen johtaisi Paurian mi silben, että "vain rikkaiden l on varias emaan asuntoon\*

mukaan ottaneet entistä vähemm asuntolainoja.

"Kasvukeskusten pienet kerrostaloas Velkapelko heräsi
not menevät yhä kaupaksi, mutta si

ten perheasuntojen kauppa on seisoks kaan kauppamäärät vähenivät kymmenen

prosenttia tammi-kesäkuussa verrattuna taja Ari Pauna sanoo Asuntomarkkinoilla on Ari Paunan malaiset kotitaloudet ovat Suomen Pankin | kaan käynnissä asuntovarallisuuden

ten periteasurioa vota yhä voimakkaam suomaiaiset ovat ennätysetkaantuneita, asuntolainojen korot ovat ennätysalhaalla ja Asuntomarkkinat ovat yhä voimakkaam korot nousevat. Fiva huolestui yhtälöstä. Pankit eivät jaa huolta, mutta Hypo ymmärtää eriytyneet eri paikkakuntien ja asuntot pien mukaan", asuntolainoihin eriko neen Hypotoekkiyhdistyksen toimitu

Normandian maihin-"Ei kaikkia munia

jos per mona on pensaa vanna, ar vonsa menenanyi napsund jolla, että perillisille jää vain paljon tekemistä ja merkittävästi kuluja,

Hypo: Kasvukeskuksissa asun

#### Asiantuntija: Suomi jakautumassa kahteen kastiin asuntomarkkinoilla

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



#### VASTUU KUULUU KUMMALLEKII



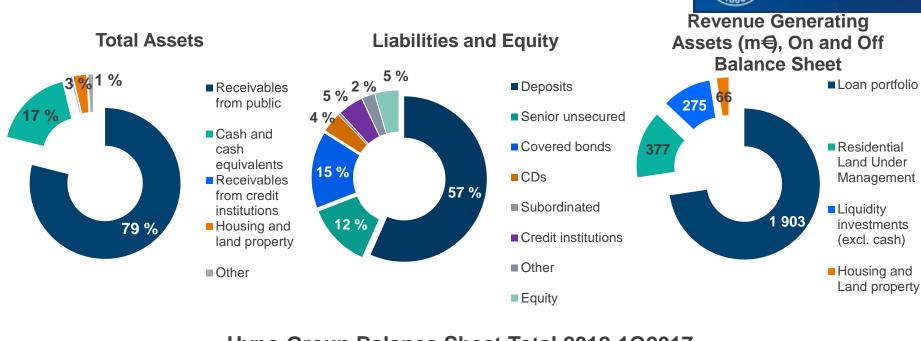
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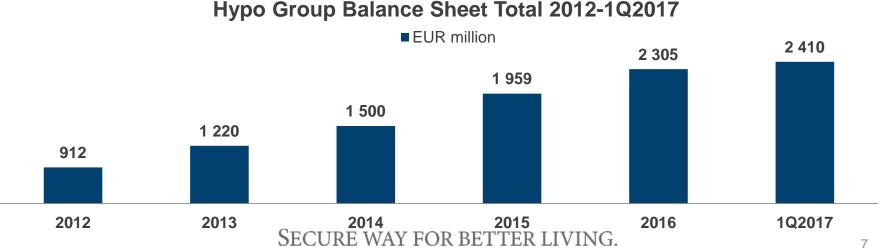


**Financial Results** 

# Hypo Group Balance Sheet EUR 2.4 billion as of 31.3.2017



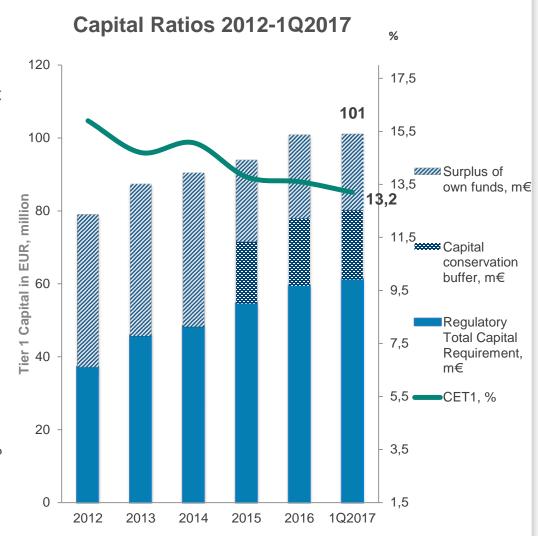
HYPO



# Solid Capital Under Basel III Standard Approach



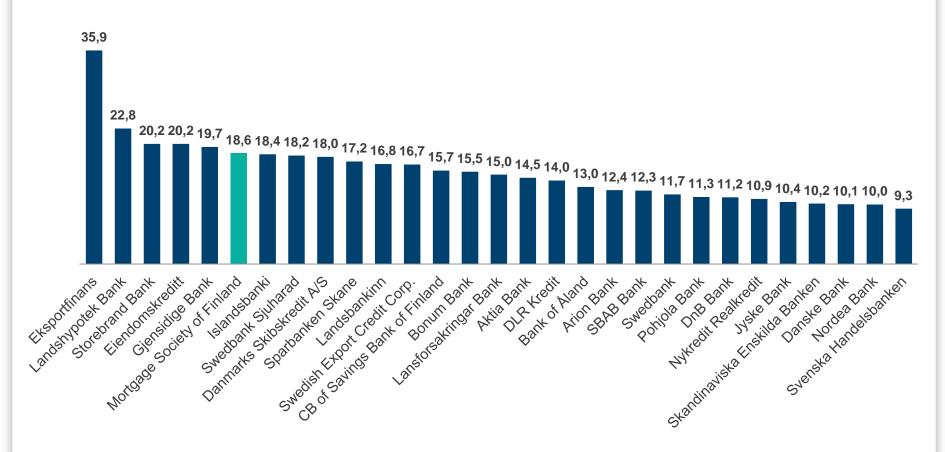
- Common Equity Tier 1 at 13.2%
- Mutual company: all profits retained and added to the core capital
- S&P Risk Adjusted Capital ratio estimate at 17.5% on 31.12.2016
  - Significantly higher than Finnish peers applying internal methods
- EUR 20.9 million of excess capital after
  - 8.0% Regulatory TC requirement
     2.5% Capital Conservation Buffer
- EUR 5.8 million of hidden reserves in housing property (not marked-to-market) and EUR 6.3 million of surplus in Pension Fund
  - Inclusion into CET1 would raise the ratio to 14.5%
- Basel III standardized approach risk weights
  - Lending with Residential collateral: 35% risk weight
  - Housing and land investments: 100% risk weight



# Hypo's S&P Risk Adjusted Capital Estimated 'very strong' 17.5% on 31.12.2016



S&P's Nordic RAC Ratios as of 31.12.2015



## **Group Income Statement**



(EUR 1 000)	1Q2017	1Q2016	2016	2015
Net Interest Income	1 768	782	5 386	4 574
Net Fee and	1700	102	0 000	4074
Commission Income	832	1 061	4 439	3 344
Total Other Income	1 319	2 621	7 924	8 667
Total expenses	-2 929	-2 405	-10 403	- 9 141
Operating Profit	1 030	2 060	7 347	7 444

- Net Interest Income more than doubled to EUR 1.8 million (0.8 million 1Q16) due to loan portfolio growth and successful diversification of funding instruments.
- Hypo Group's operating profit before tax fell to EUR 1.0 million (EUR 2.1 million 1Q16).
- Net Fee and Commission Income for the period decreased to EUR 0.8 million (1.1 million) due to intensified competition in Land trustee services.
- Total other income (incl. Treasury operations and investments in housing and residential land) decreased to EUR 1.3 million (2.6 million)
- Total expenses increased to EUR 2.9 million (2.4 million) following a contribution payment to the Financial Stability Authority.

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# **Group Key Financial Figures**



	1Q2017	1Q2016	2016	2015
Common Equity Tier 1 ratio (%)	13.2	13.7	13.6	13.8
Cost-to-income ratio (%)	74.1	53.9	57.1	55.2
Non-performing assets, % of the loan portfolio	0.12	0.22	0.11	0.16
Loan-to-value ratio (%)	38.9	40.4	38.4	41.1
Loans-to-deposits (%)	139	136	150	137
Loan portfolio total (m€)	1 903	1 490	1 806	1 421
Balance sheet total (m€)	2 410	1 972	2 305	1 959

- Total assets increased to EUR 2.4 billion (EUR 1.97 billion 1Q16)
- Loan portfolio increased to EUR 1.9 billion (1.5 billion 1Q16)
- CET1 ratio decreased to 13.2% (13.7%)
- Amount of equity increased to EUR 110.2 million (EUR 103.4 million).
- Average LTV was stable at 38.9% (38.4%)
- Group's financial position remained stable throughout the period SECURE WAY FOR BETTER LIVING.

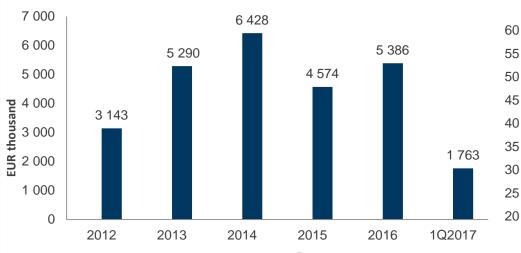
## Financial Performance – Net Interest Income **Doubled Despite Low Interest Rates**



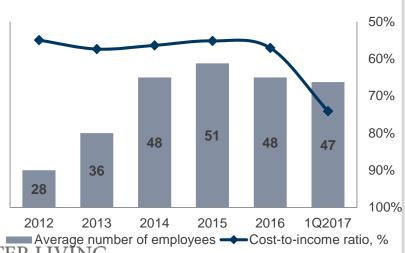


- Net interest income more than doubled to EUR 1.8 million (0.8 million) due to successful diversification of funding sources
- Operating profit decreased to EUR 1.0 million (2.1 million)
- Cost-to-income ratio deteriorated to 74% (54%) due to increased contribution payment to the FSA and change in its accounting treatment.

#### Net Interest Income



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



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55

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12



Hypo's Loan Book

#### **Loan Book Overview**

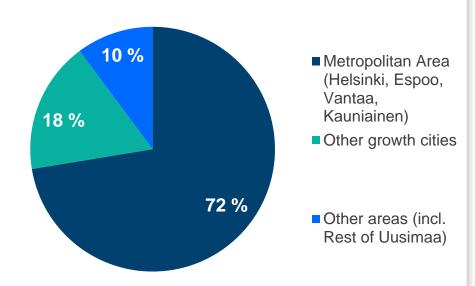
HYPO

- Mortgage loans secured by residential property
- 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

#### **Lending by Customer Type**

# 4 Households 30 % Housing investors Housing companies Housing companies under construction

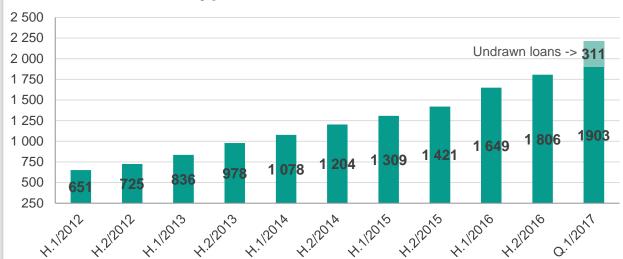
#### **Loan Book by Customer Domicile**



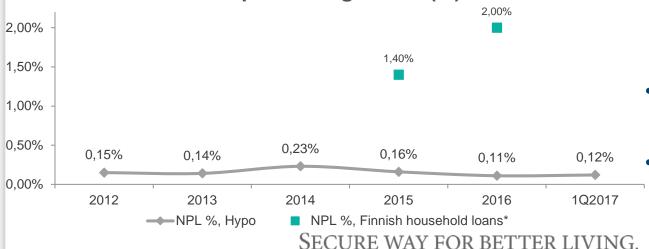
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# **Hypo Loan Book Growing Steadily**





#### Non-performing Loans (%)



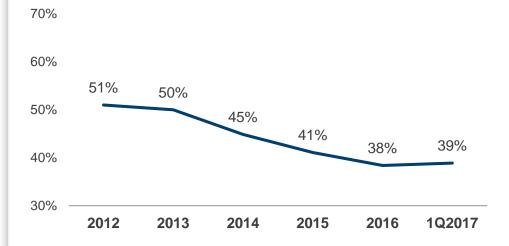


- Hypo's loan book increased 5.4% during 1Q17, reaching EUR 1.9 billion (1.5 billion 1Q16)
- Currently EUR 311 million undrawn loans
- All lending against residential collateral
- Only EUR denominated lending
- All collateral located in Finland
- Strategic concentration in the Helsinki Metropolitan Area and other specified growth areas
- Non-performing loans remained very low at 0.12% of the total loans
- The quality of the loan book well above the Finnish household average NPLs (2.0% ye2016)\*

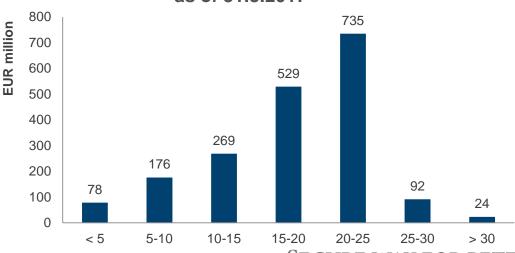
# **Loan Book Quality Excellent**



#### **Hypo Loan Book Average LTV**



# Loan Book by Remaining Maturity (years) as of 31.3.2017



- Hypo's loan portfolio is entirely secured by residential property
- The average LTV (loan-to-value) stabilized to 39% (38% 1Q16)
- 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**

HYPO

- Issuance of covered bonds started in 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 (e.g. NIB cooperation)

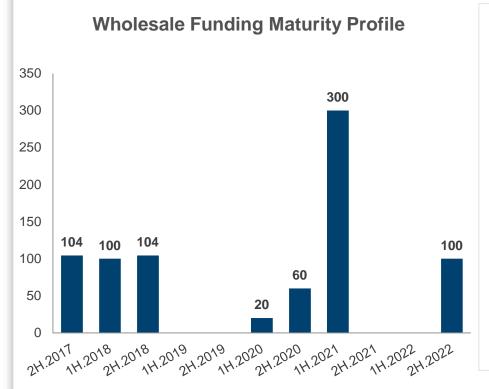
#### Outstanding Issues as of 31.3.2017 (original amount issued)

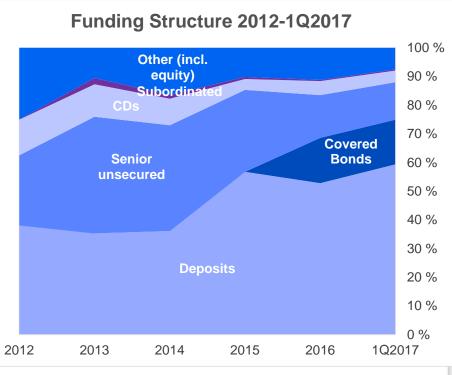
		. •	*	
Issue Date	<b>Maturity Date</b>	Туре	Nominal Issued (m€)	Coupon
29.4.2014	30.10.2017	Senior Unsecured	75	FRN 6M +1.00
22.9.2014	30.10.2017	Senior Unsecured	25	FRN 6M +0.90
4.12.2014	4.6.2018	Senior Unsecured	75	FRN 6M +0.95
16.1.2015	4.6.2018	Senior Unsecured	25	FRN 6M +0.95
4.12.2015	4.12.2018	Senior Unsecured	100	FRN 6M +0.90
10.5.2016	10.5.2021	Covered	250	Fixed +0.25
27.9.2016	10.5.2021	Covered	50	Fixed +0.25
7.12.2016	7.12.2022	Covered	100	Fixed +0.25
	29.4.2014 22.9.2014 4.12.2014 16.1.2015 4.12.2015 10.5.2016 27.9.2016	29.4.2014     30.10.2017       22.9.2014     30.10.2017       4.12.2014     4.6.2018       16.1.2015     4.6.2018       4.12.2015     4.12.2018       10.5.2016     10.5.2021       27.9.2016     10.5.2021	29.4.2014       30.10.2017       Senior Unsecured         22.9.2014       30.10.2017       Senior Unsecured         4.12.2014       4.6.2018       Senior Unsecured         16.1.2015       4.6.2018       Senior Unsecured         4.12.2015       4.12.2018       Senior Unsecured         10.5.2016       10.5.2021       Covered         27.9.2016       10.5.2021       Covered	29.4.2014       30.10.2017       Senior Unsecured       75         22.9.2014       30.10.2017       Senior Unsecured       25         4.12.2014       4.6.2018       Senior Unsecured       75         16.1.2015       4.6.2018       Senior Unsecured       25         4.12.2015       4.12.2018       Senior Unsecured       100         10.5.2016       10.5.2021       Covered       250         27.9.2016       10.5.2021       Covered       50

# **Well Diversified Funding Profile**



- 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



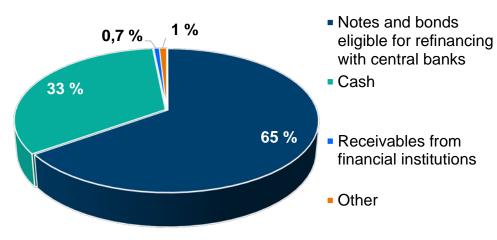


# **Solid Liquidity Position**



- Liquidity portfolio EUR 422 million as of 31.3.2017
  - Equaling 17.5% of total assets
  - Conservative investment policy
    - 95% 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 122% (144% ye2016)
  - Liquidity covers maturing wholesale funding for the following 20 months

#### Liquidity Portfolio as of 31.3.2017



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#### **Outlook for 2017**



#### **Future Outlook**



"Finnish economic growth will continue moderately during 2017, which has positive repercussions on i.a. consumers' homebuying intentions. The urbanization in Finland continues and supports the housing and mortgage markets in the biggest growth centers. However, the positive profit development is still shadowed by uncertainties in the European and world economies.

Group management estimates the core business' share of the profit for the financial period keeps growing but due to the tight competition in Land Trustee Services, the following two quarterly results are expected to remain below of their comparison periods. The operating profit for 2017 is expected at most to reach the 2016 level or to remain slightly lower."



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