

Hypo Investor Update 3Q2017

Debt Investor Presentation



Published on November 2, 2017

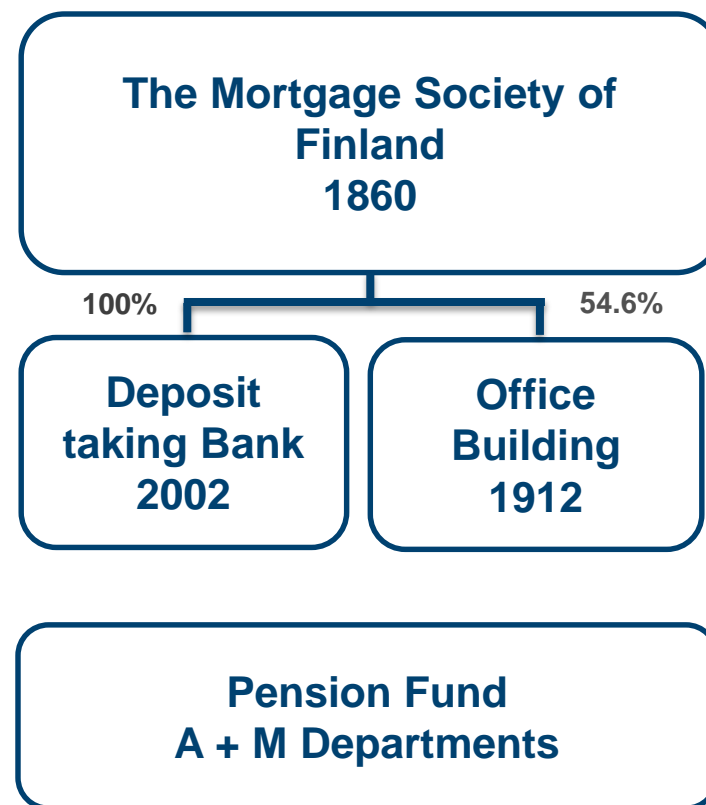


Secure Way for Better Living

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 0.13%)
- Established and regular issuer in Finland
- Total assets EUR 2.64 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-sized bank, concentrated niche market position
- Prudent approach in risk management, restricted operations providing stability

2. Hypo capital and earnings

+2

- Very strong capitalization
- Strong asset quality and exceptional loan loss track record.
- Mutual business model: retained earnings fully used for capital build-up

3. Hypo risk position

-1

- Moderate risk position due to concentration in risks
- Partly mitigated by conservative underwriting standards, prudent risk management and outstanding loan-loss track record

4. Hypo liquidity and funding

-1

- Well matched funding profile
- High loan-to-deposit ratio

Hypo Credit Rating

BBB (st.)

Hypo – Leading the Debate on Finnish Mortgage Market

Kauppalehti

Uutiset Pörssi Yritykset Keskustelu Blogit

KL NYT
Tarkemmat uutiset ja terävimmät näkemykset nyt.

27.10. 16:00 (PÖRSSITIEDOTE)
Consti Yhtiöt Oy:n osavuosikatsaus
1-9/2016 julkistetaan 10.11.2016 klo 8:30

27.10. 16:00 (PÖRSSITIEDOTE)
Consti Group Plc's Interim
January-September 2016
on 10 November 2016 at

27.10. 15:56

Ericssonin ongelmat eivät laarini

27.10. 15:49

Nissan ei pelästynyt brexitin valmistus jatkuu Sunderlandissa

27.10. 15:41

Nykynuorten eläkeläisten

27.10. 15:40

REUTERS: Copper hits two Chinese demand hopes

KL NYT -kujia

LUETUIMMAT

Tänään 10:38

Tutkijat: Saimme viestin muok

avaruudesta

Tänään 8:05

Nokian tulos selvästi odotettua

Tänään 12:30

Nokian tulos hämmäntä jälleen

liikevoitto 55 vai 556 miljoonaa?

Tänään 8:37

LIFESTYLE

Hypon Pal ASP remon

Hypoteekkiyhdistyksen toimitusjohtaja Ari Pau

na ehdottaa, että säästämissen voi

si aloittaa 15-vuot

taana.

Antti Lehmusvirta

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Hypo: Suurin vastuu asuntokuplasta on vuokranantajilla ja heidän rahoittajillaan

16.1.2016 8:00 | Päivitetty 16.1.2016 16:35

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ASUNTOMARKKINAT

Asuntovarallisuuden isojako kiihtyy

Asuntokaupan hulluja vuosia on seurannut krapula. Harvoja hyötyjiä ovat parituvaut sikkut.



Teksti Taina Vuokko

Asuntomarkkinat on hidastunut merkittävästi. Ennen varsinnoitettua markkintaa korostusta osittain vaihtavasti omistajien, mutta sen jälkeen asuntokauppa toimisi tiheämpänä.

Kinttoyhtiöitäkin vähentävät kymmenen prosentin tamm-kesäkuussa verrattuna viime vuoden vastaavaan ajankohtaan. Suomalaiset kotitaloudet ovat Suomen Pankin mukaan ottaneet entistä vähemmän asuntolainoja.

"Kasvukustusten pienet kerrostalot nyt menevät yhä kaupaksi, mutta siinä perheasuntojen kauppa on seisoaks. Asuntomarkkinat ovat yhä voimakkaamasti eriyntyneet eri paikkakuntien ja asuntotyyppien mukaan", asuntolainojen erikoilman Hypoteekkiyhdistyksen toimitusjohtaja Ari Paua sanoo.

Asuntomarkkinoilla on Ari Pauan mukaan käynnissä asuntovarallisuuden

Hypo: Kasvukeskuksissa asunvasta alkanut - syrjäseuduilla

28.9.2016 9:24 | Päivitetty 28.9.2016 10:09

Asuminen Asuntojen hinnat Sijoittaminen Asintojoittaminen



Velkapelko heräsi

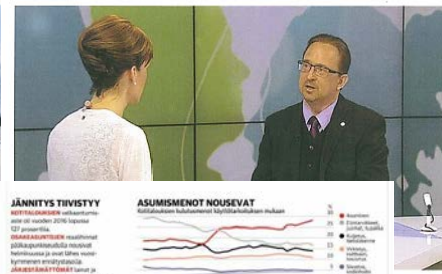
Suomalaiset ovat ennätyksellään asuntolainojen korkotoukasta huolta, mutta Hypo ymmärtää.

Yhteiskunnan elämäntyyli on muuttunut. Suomalaiset ovat alkaneet ottaa asuntolainojen korkotoukasta huolta. Hypo ymmärtää, että asuntolainojen korkotoukasta huolta on tullut yhä enemmän. Hypo ymmärtää, että asuntolainojen korkotoukasta huolta on tullut yhä enemmän.



Asiantuntija: Suomi jakautumassa kahteen kastiin asuntomarkkinoilla

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



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Financial Results

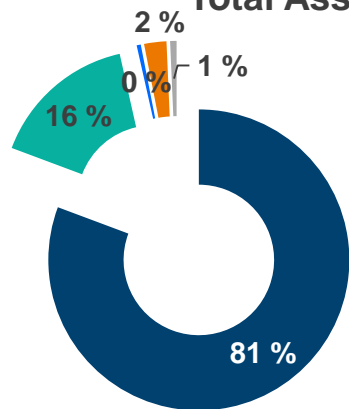


Hypo Group Balance Sheet

EUR 2.6 billion as of 30.9.2017

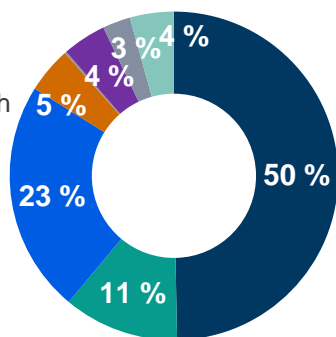


Total Assets



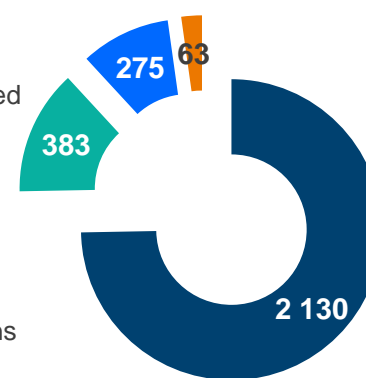
- Receivables from public
- Cash and cash equivalents
- Receivables from credit institutions
- Housing and land property
- Other

Liabilities and Equity



- Deposits
- Senior unsecured
- Covered bonds
- CDs
- Subordinated
- Credit institutions
- Other
- Equity

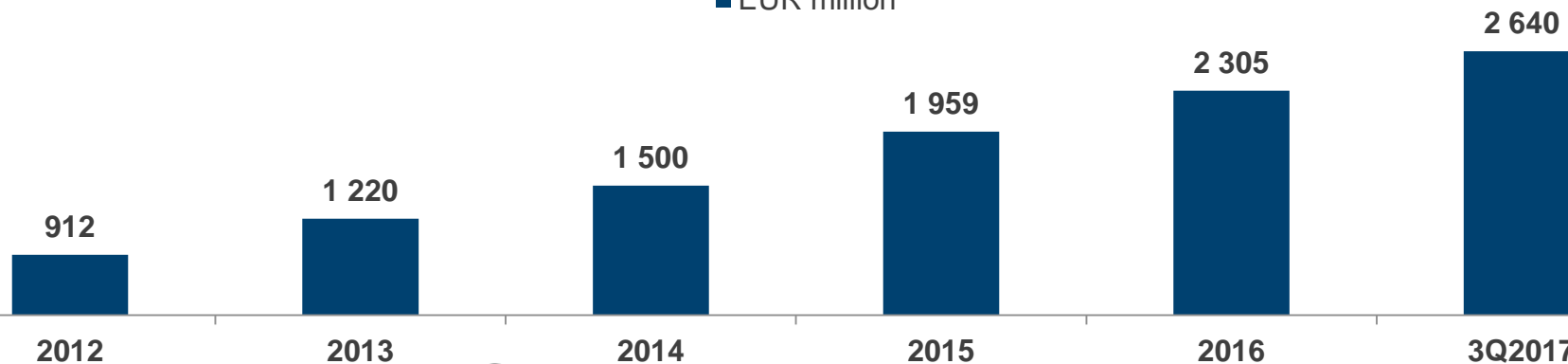
Revenue Generating Assets (m€), On and Off Balance Sheet



- Loan portfolio
- Residential Land Under Management
- Liquidity investments (excl. cash)
- Housing and Land property

Hypo Group Balance Sheet Total 2011-3Q2017

■ EUR million



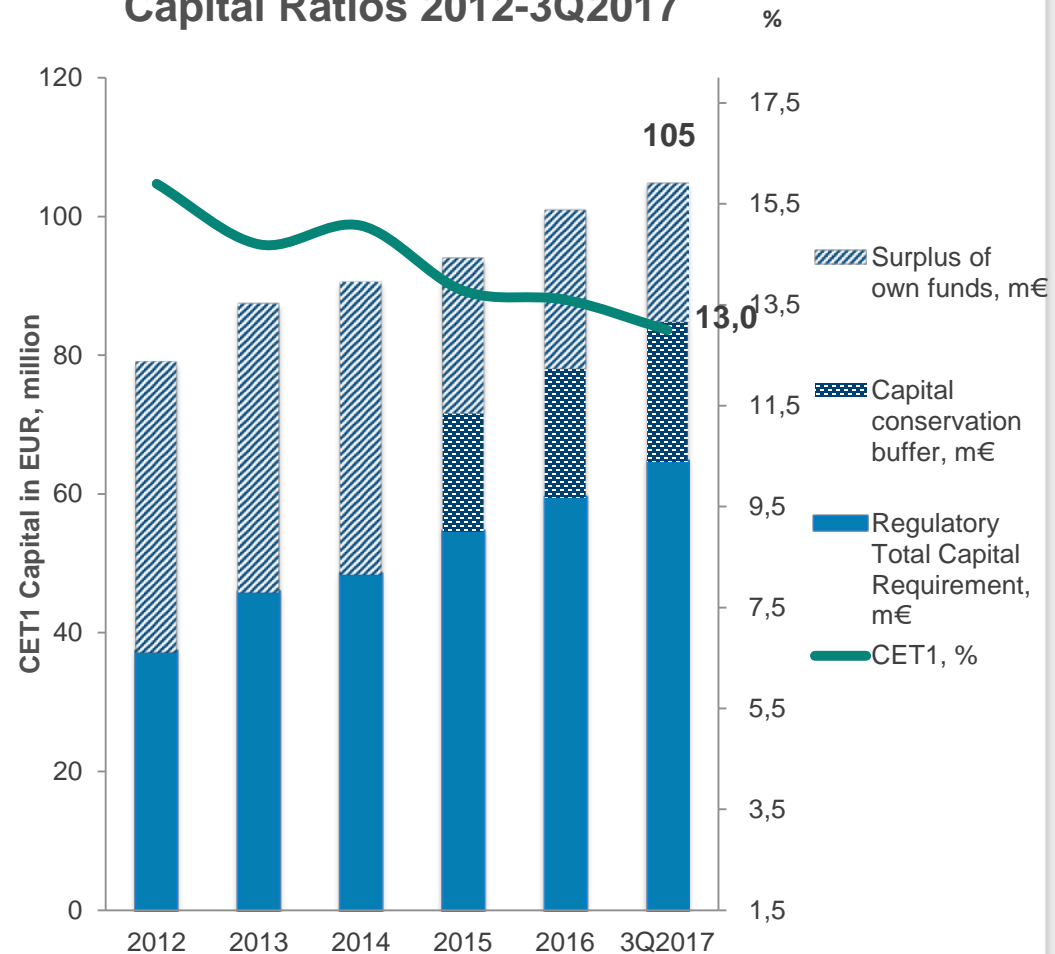
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Solid Capital Under Basel III Standard Approach



- Common Equity Tier 1 at 13.0%
- Mutual company: all profits retained and added to the core capital
- S&P's revised Risk Adjusted Capital ratio at 18.1% on 31.12.2016
 - Significantly higher than Finnish peers applying internal methods
- EUR 20 million of excess capital after
 - 8.0% Regulatory TC requirement
 - 2.5% Capital Conservation Buffer
- EUR 5.9 million of hidden reserves in housing property (not marked-to-market) and EUR 6.4 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

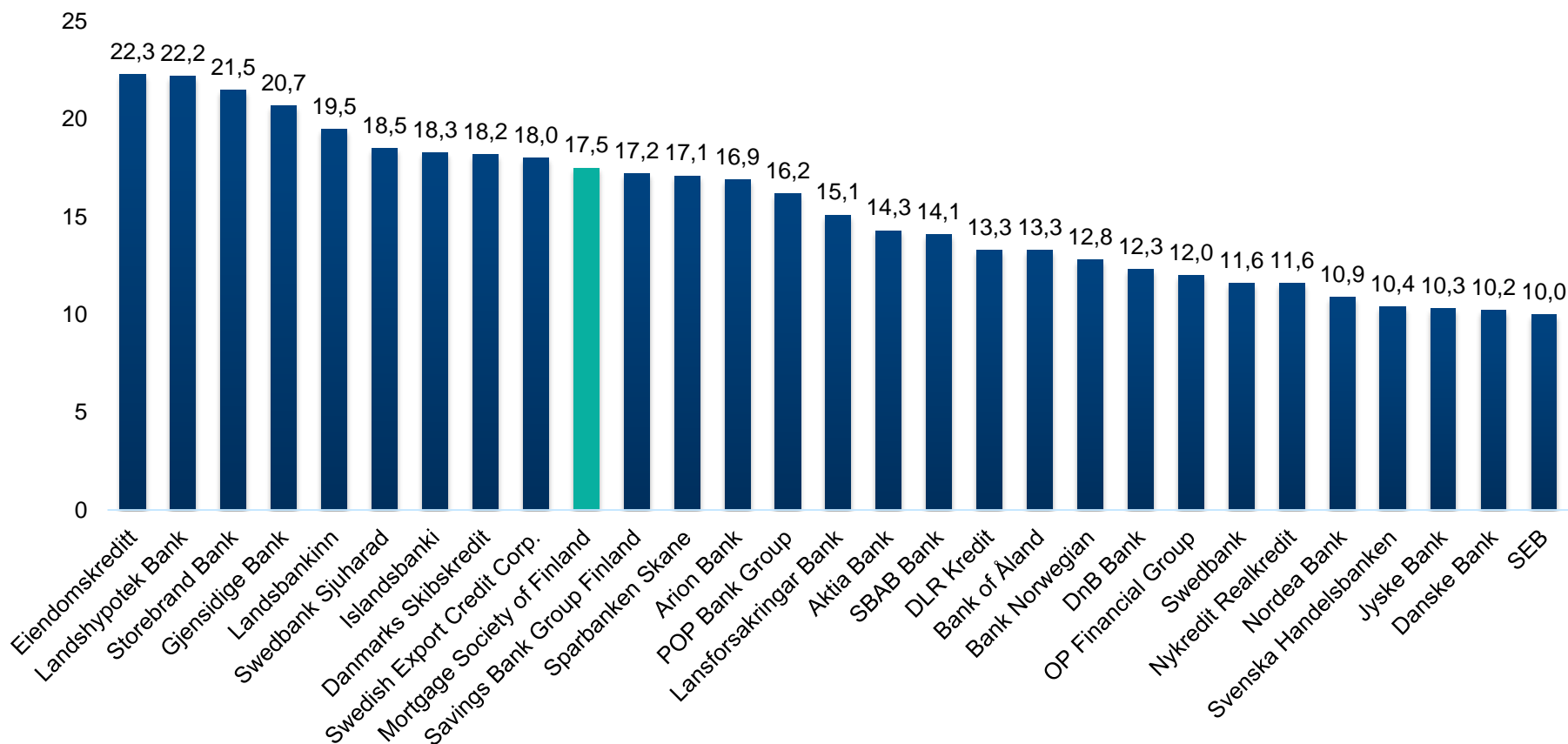
Capital Ratios 2012-3Q2017



Hypo's S&P Risk Adjusted Capital 'very strong'



S&P's Nordic RAC Ratios as of 31.12.2016,
According to the then valid methodology



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Group Income Statement



(EUR 1 000)	3Q2017	3Q2016	2016	2015
Net Interest Income	2 329	1 561	5 386	4 574
Net Fee and Commission Income	807	1 051	4 439	3 344
Total Other Income	979	1 133	7 924	8 667
Total expenses	- 2 340	- 2 094	-10 403	- 9 141
Operating Profit	1 775	1 650	7 347	7 444

- Net Interest Income increased by 44% to EUR 2.3 million (1.6 million 3Q16) due to loan portfolio growth and continued decrease in funding costs.
- Hypo Group's operating profit before tax increased to EUR 1.8 million (EUR 1.7 million 3Q16).
- 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 0.98 million (1.1 million)
- Total expenses increased to EUR 2.3 million (2.1 million)

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Group Key Financial Figures



	3Q2017	3Q2016	2016	2015
Common Equity Tier 1 ratio (%)	13.0	13.0	13.6	13.8
Cost-to-income ratio (%)	57.0	56.0	57.1	55.2
Non-performing assets, % of the loan portfolio	0.13	0.19	0.11	0.16
Loan-to-value ratio (%)	37.7	39.0	38.4	41.1
Loans-to-deposits (%)	162	152	150	137
Loan portfolio total (m€)	2 130	1 756	1 806	1 421
Balance sheet total (m€)	2 640	2 232	2 305	1 959

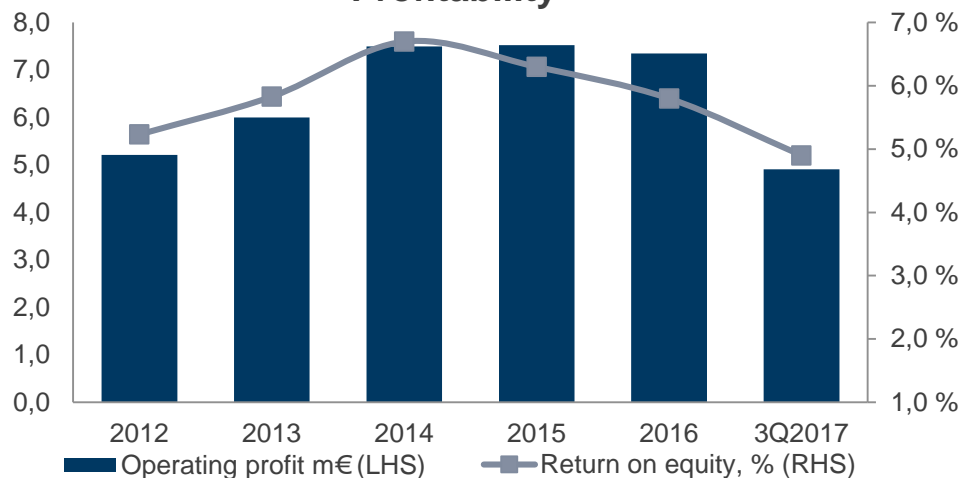
- Total assets increased to EUR 2.64 billion (EUR 2.2 billion 3Q16)
- Loan portfolio increased to EUR 2.1 billion (1.8 billion 3Q16)
- CET1 ratio remained stable at 13.0% (13.0% 3Q16)
- Amount of equity increased to EUR 114.4 million (EUR 108.5 million 3Q16).
- Average LTV lowered to 37.7% (39.0% 3Q16)
- Group's financial position remained stable throughout the period

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Performance Net Interest Income Increases Despite Low Interest Rate Environment

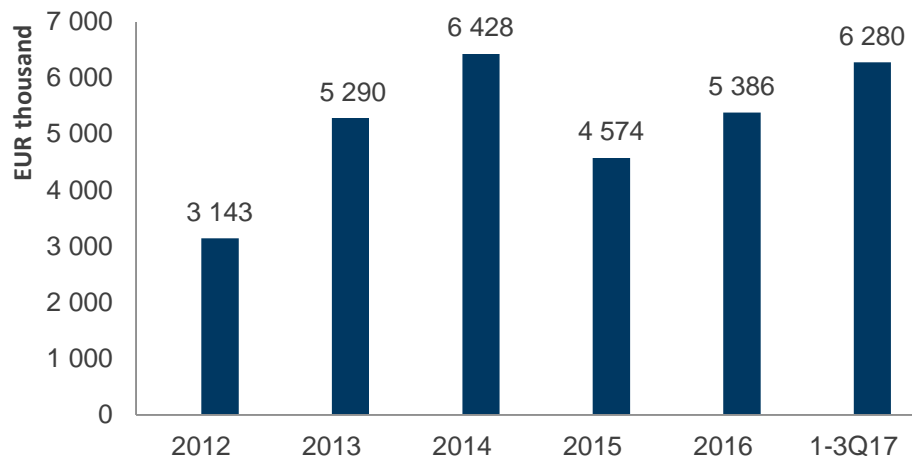


Profitability

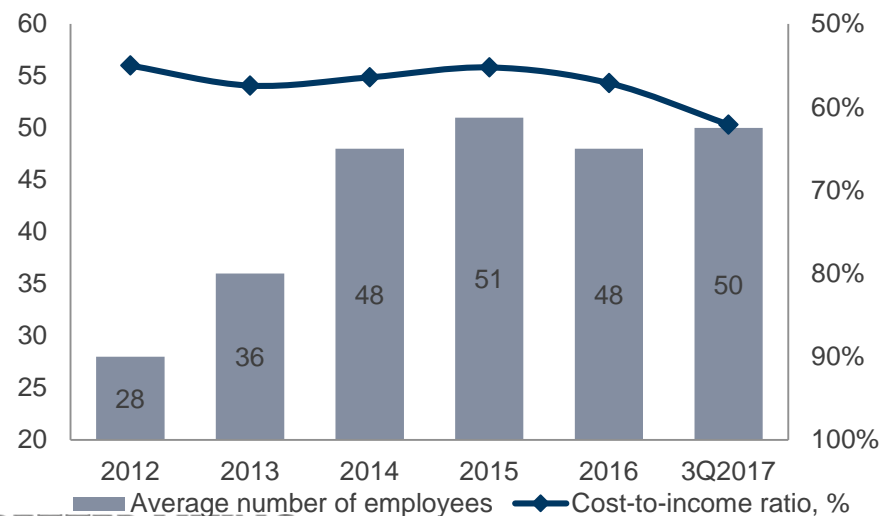


- 1-3Q net interest income increased year-on-year to EUR 6.3 million (3.6 million) due to successful diversification of funding sources
- Operating profit decreased y-o-y to EUR 4.9 million (6.3 million)
- 1-3Q cost-to-income ratio 62% (54%)

Net Interest Income 2012-3Q2017



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



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Hypo's Loan Book

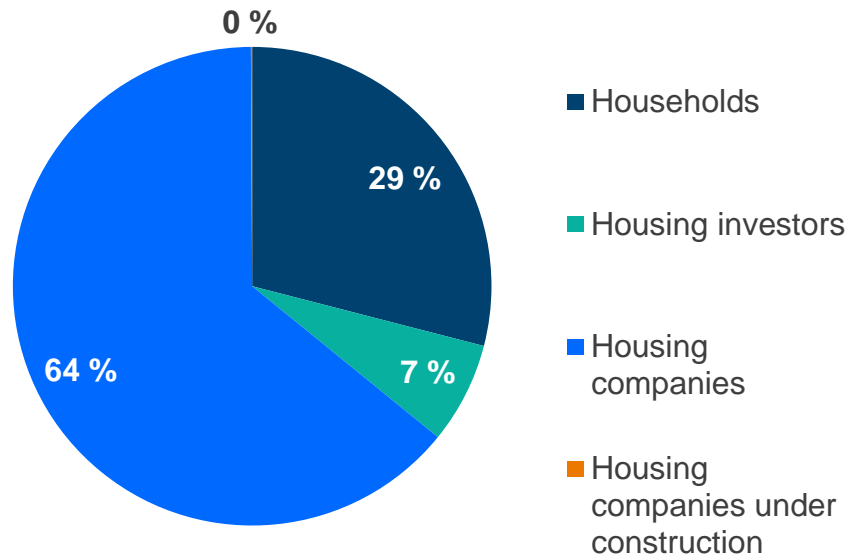


Loan Book Overview

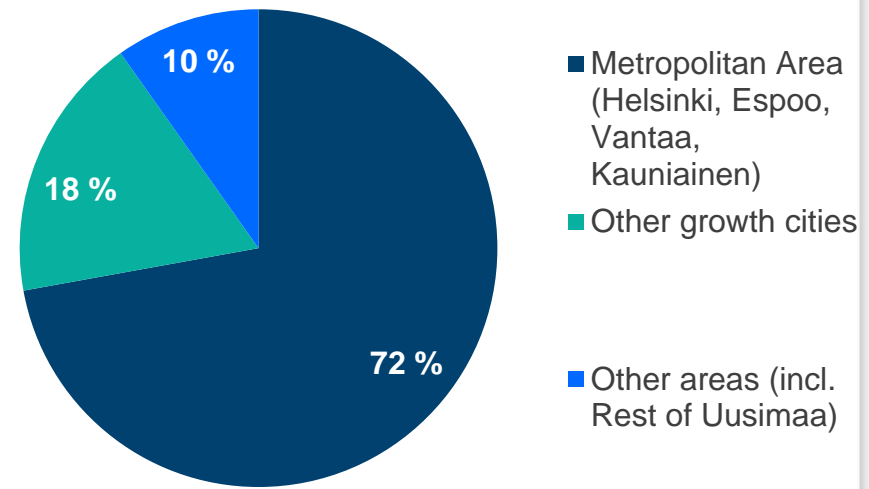


- Mortgage loans secured by residential property
- Collateral requirement is set in the Finnish Act on Mortgage Societies
- Two main customer groups
 1. Households and private individuals: home mortgage, buy-to-let
 2. Housing companies: renovation loans, construction phase loans

Lending by Customer Type



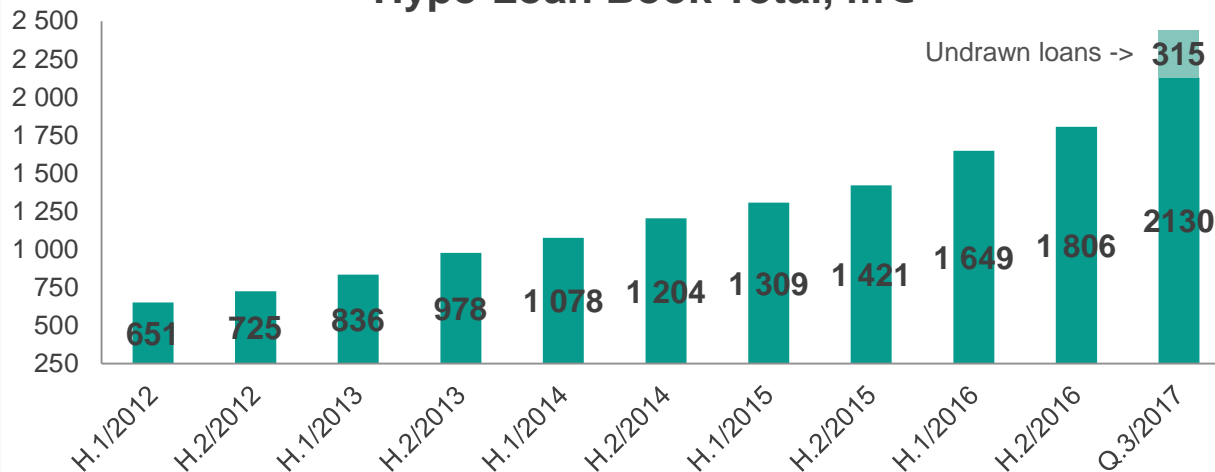
Loan Book by Customer Domicile



Hypo Loan Book Growing Steadily

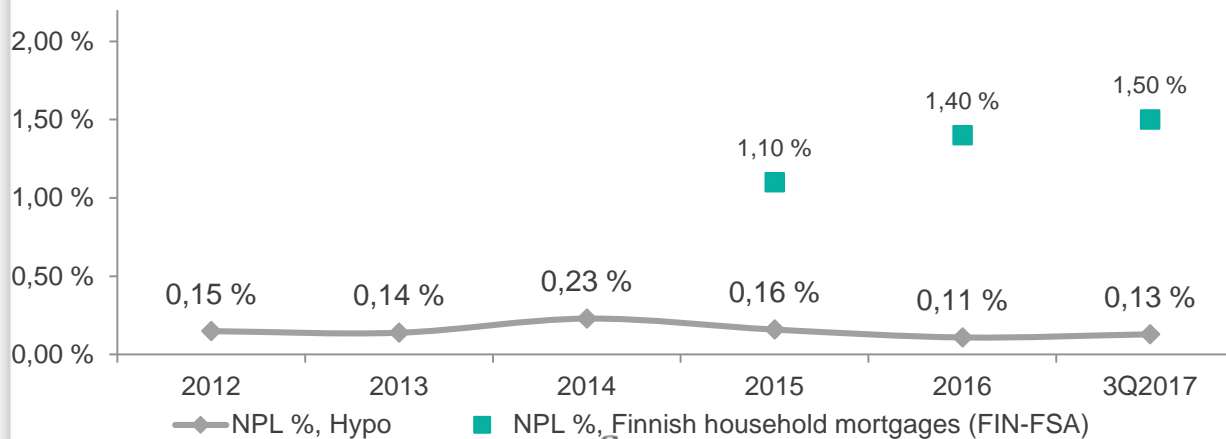


Hypo Loan Book Total, m€



Undrawn loans -> 315

Non-performing Loans (%)



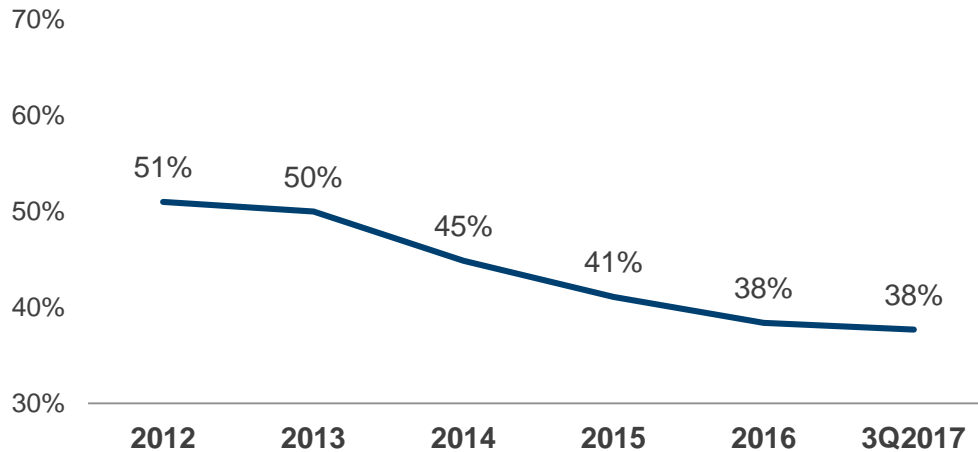
- Hypo's loan book increased 18% during 1-3Q17, reaching EUR 2.1 billion (1.8 billion ye16)
- Currently EUR 315 million undrawn loans
- All lending against residential collateral
- Only EUR denominated lending
- All collateral located in Finland
- Strategic concentration in the Helsinki Metropolitan Area and other specified growth areas
- Non-performing loans remained very low at 0.13% of the total loans
- The quality of the loan book well above the Finnish household mortgage average NPLs.

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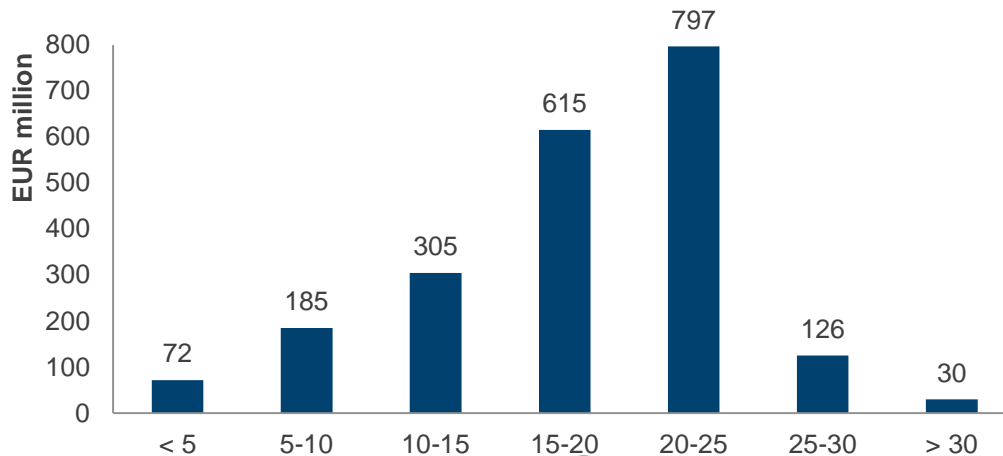
Loan Book Quality Excellent



Hypo Loan Book Average LTV



Loan Book by Remaining Maturity (years) as of 30.9.2017



- Hypo's loan portfolio is entirely secured by residential property
- The average LTV (loan-to-value) stable at 38%
- Around 95% of the loans are amortizing and 5% bullets
- >90% of loan book is risk weighted at 35% or lower
- The average maturity of a loan at the time of withdrawal is 16 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



- 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 30.9.2017 (original amount issued)

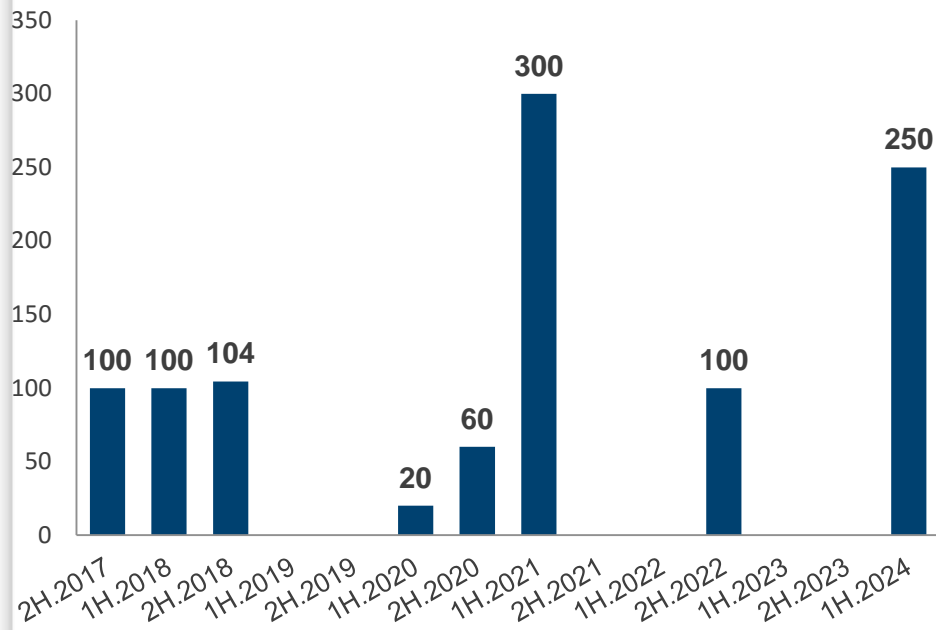
ISIN	Issue Date	Maturity Date	Type	Nominal Issued (€)	Coupon
FI4000092598	29.4.2014	30.10.2017	Senior Unsecured	75	FRN 6M +1.00
FI4000092598 (tap)	22.9.2014	30.10.2017	Senior Unsecured	25	FRN 6M +0.90
FI4000123021	4.12.2014	4.6.2018	Senior Unsecured	75	FRN 6M +0.95
FI4000123021 (tap)	16.1.2015	4.6.2018	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
FI4000266903	28.6.2017	28.6.2024	Covered	250	Fixed +0.375

Well Diversified Funding Profile

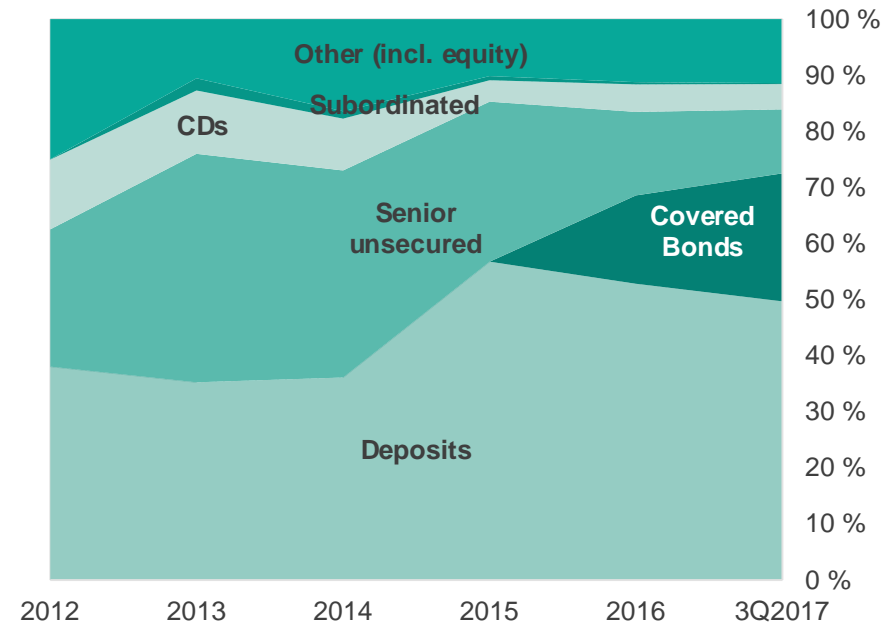


- Domestic Program for the Issuance of Senior Unsecured and Covered Bonds
- Deposit funding through the AsuntoHypoPankki subsidiary
 - ~50% of total funding
- Domestic CD program for short term funding
- Possibility to participate in the ECB market operations

Wholesale Funding Maturity Profile



Funding Structure 2012-3Q2017



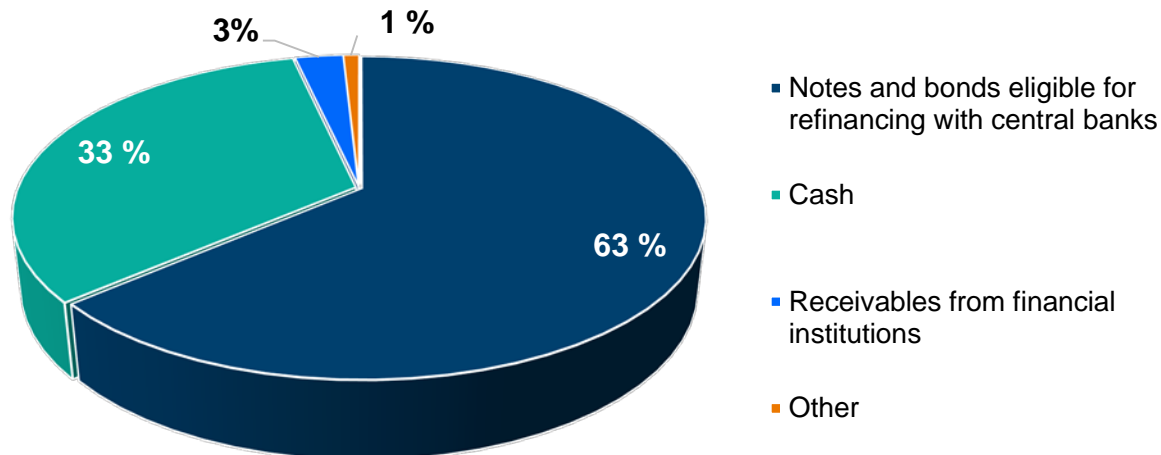
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Solid Liquidity Position



- **Liquidity portfolio EUR 432 million as of 30.9.2017**
 - Equaling 16.4% 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 91% (144% ye2016)
 - Liquidity covers maturing wholesale funding for the following 14 months

Liquidity Portfolio as of 30.9.2017



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Outlook for 2017



Future Outlook



“ Finnish economy develops positively in 2017 and in 2018, which has positive repercussions on housing market and loan demand. The urbanization in Finland continues and supports the housing and mortgage markets in the biggest growth centers yet, at the same time, the decline of regions experiencing net population outflows continues. Uncertainties in the European and world economies may weaken the outlook.

Following the increase in loan portfolio and net interest income, Hypo’s core business’ share of the profit for the financial period keeps growing. The operating profit for 2017 is expected at most to reach the 2016 level or to remain slightly lower. Hypo concentrates on its core business operations, whereupon risk level of lending is expected to become more moderate and capital adequacy to remain almost unchanged.”



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