

# Hypo Investor Update 2018

Debt Investor Presentation



Hypo Covered Bond Roadshow April 9-13, 2018

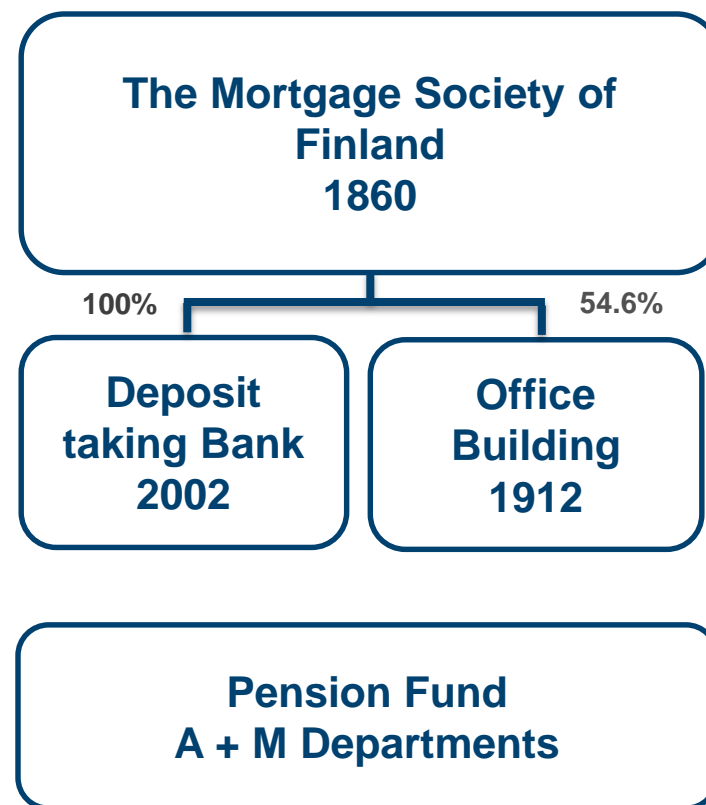


**Secure Way for Better Living**

# 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 0.14%)
- Established EUR covered issuer with regular issuance
- Total assets EUR 2.8 billion
- S&P issuer rating 'BBB/A-2' (st.)
- S&P covered bond rating 'AAA' (st.)



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# 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 Issuer Credit Rating

**BBB (st.)**

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# Finnish Economy & Housing Market

## Overview



# Finnish economy in a nutshell

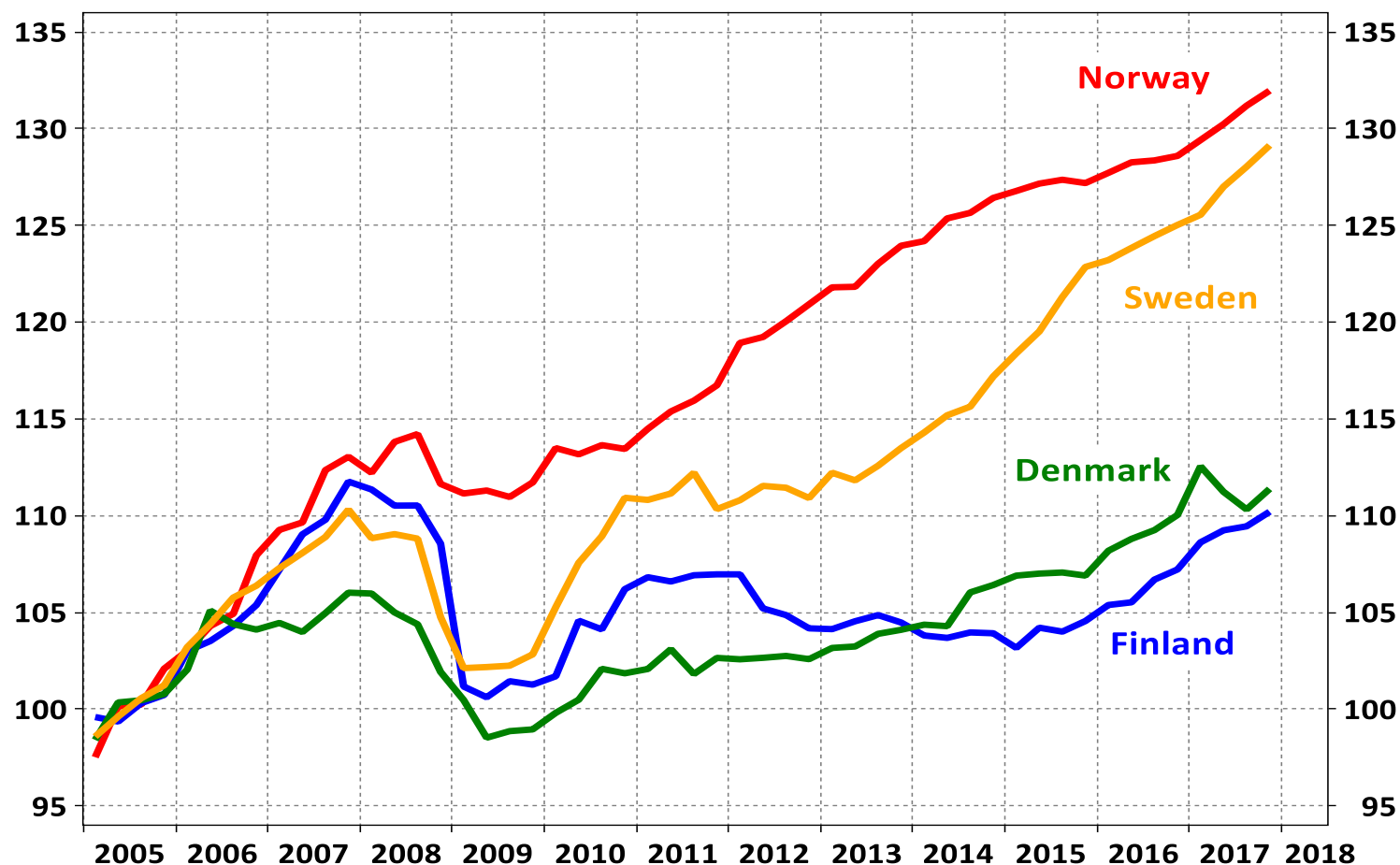


				Forecast	
National account	2016	2016	2017	2018	2019
	EUR bn (current prices)			% y/y	
GDP	216	2,1	2,7	3,0	2,0
Imports	79	5,4	3,5	3,0	3,0
Exports	77	2,3	7,8	5,0	4,0
Private Consumption	119	1,8	1,6	2,0	1,5
Public Consumption	52	1,8	1,3	0,5	0,0
Investments	47	7,4	6,3	5,0	3,0
Economic indicators		2016	2017	2018	2019
Unemployment rate, %		8,8	8,6	8,0	7,5
Earnings, % y/y		0,9	0,2	2,0	2,0
Inflation, % y/y		0,4	0,7	1,0	1,5
Housing prices, % y/y		0,9	1,1	1,5	2,0
Current account, % of GDP		-0,3	0,7	0,2	0,2
Public deficit, % of GDP		-1,7	-1,0	-1,0	-1,0
Public debt/GDP, % of GDP		63,1	62,0	61,0	60,5

# Finland joins “the Club for Growth”



2005 = 100, GDP



Source: Macrobond

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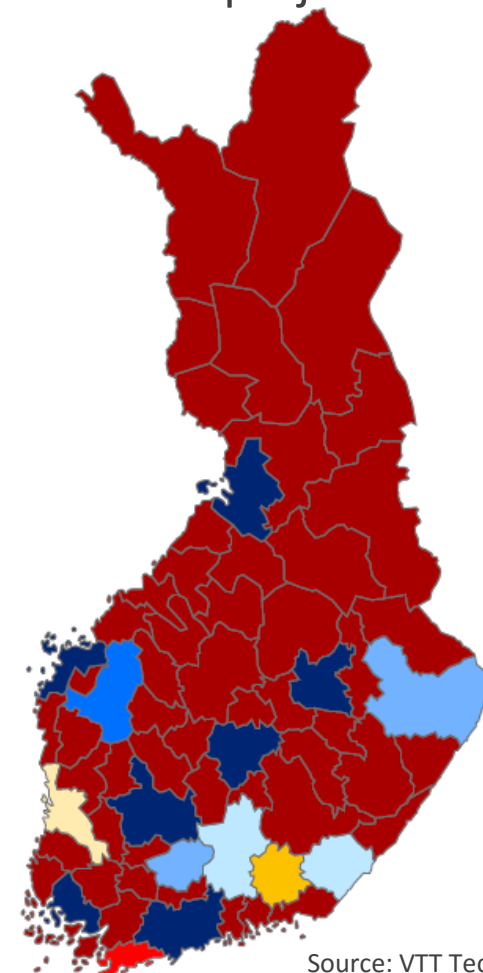
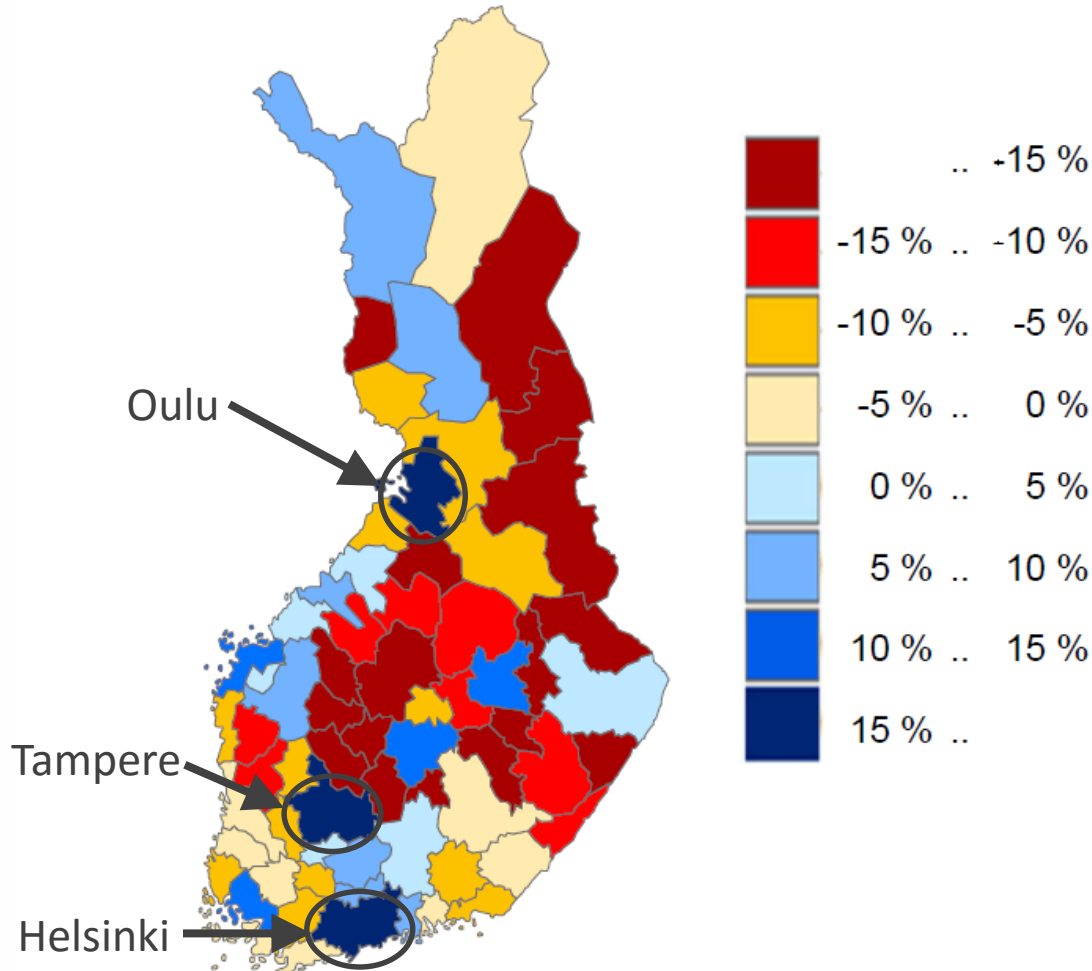


# Urbanization major trend in Finland: Population projection 2015-2040



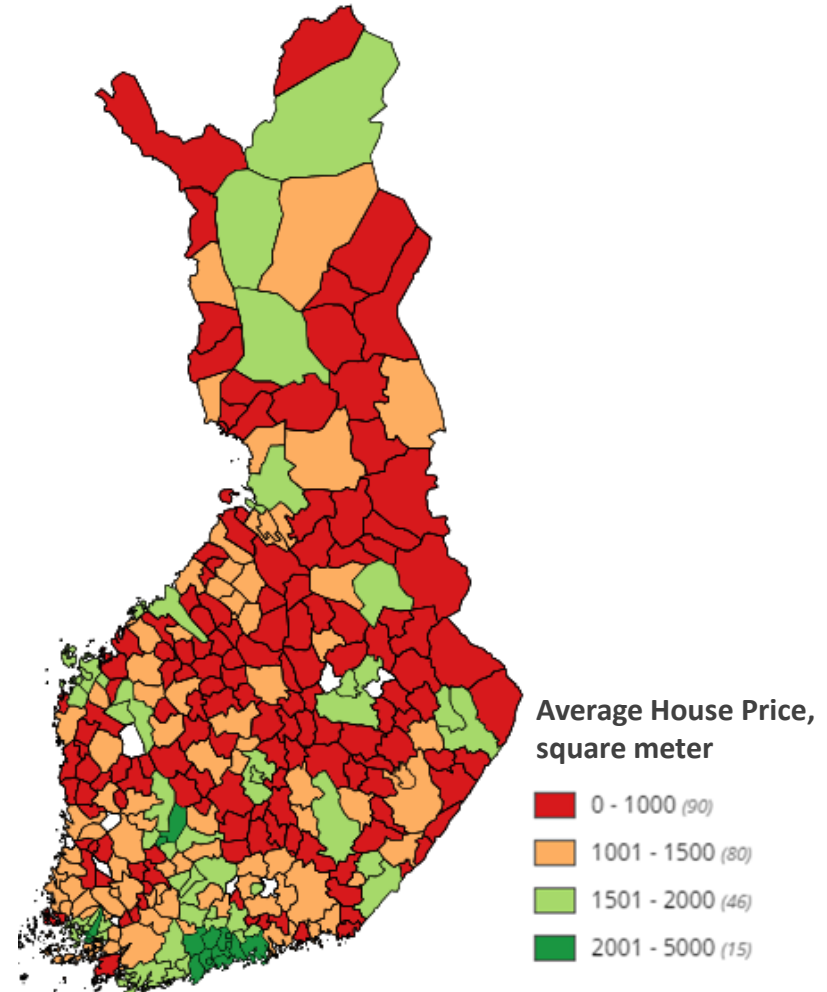
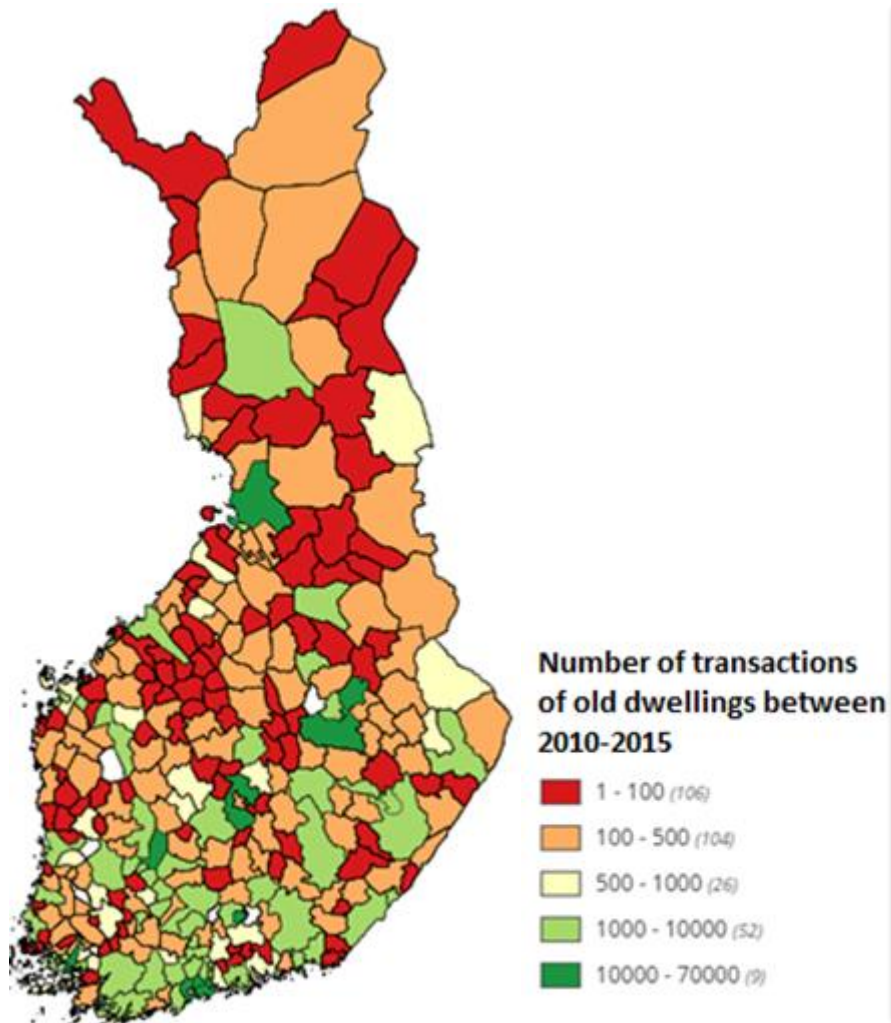
Statistics Finland  
official forecast

Trend development  
2010-2014 projected to 2040



Source: VTT Technology 247

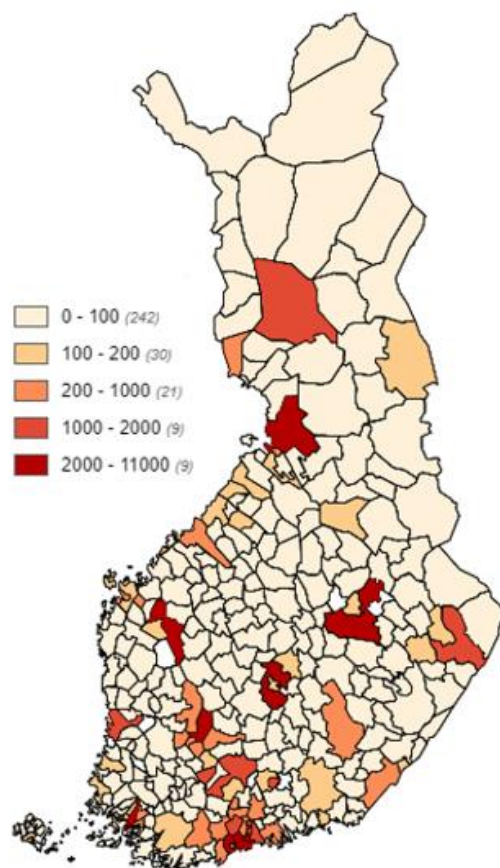
# Liquidity and Collateral Value crucial



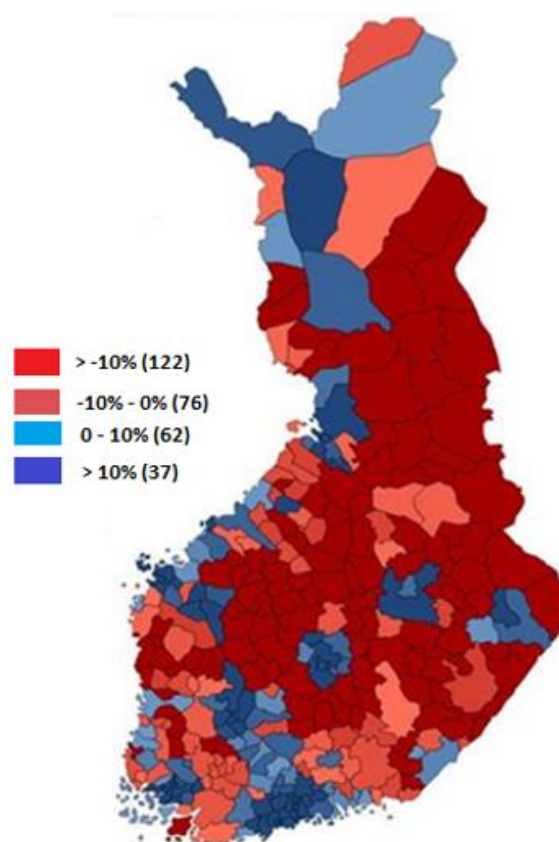
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# Construction boom in the right place

Housing starts 2016-2017



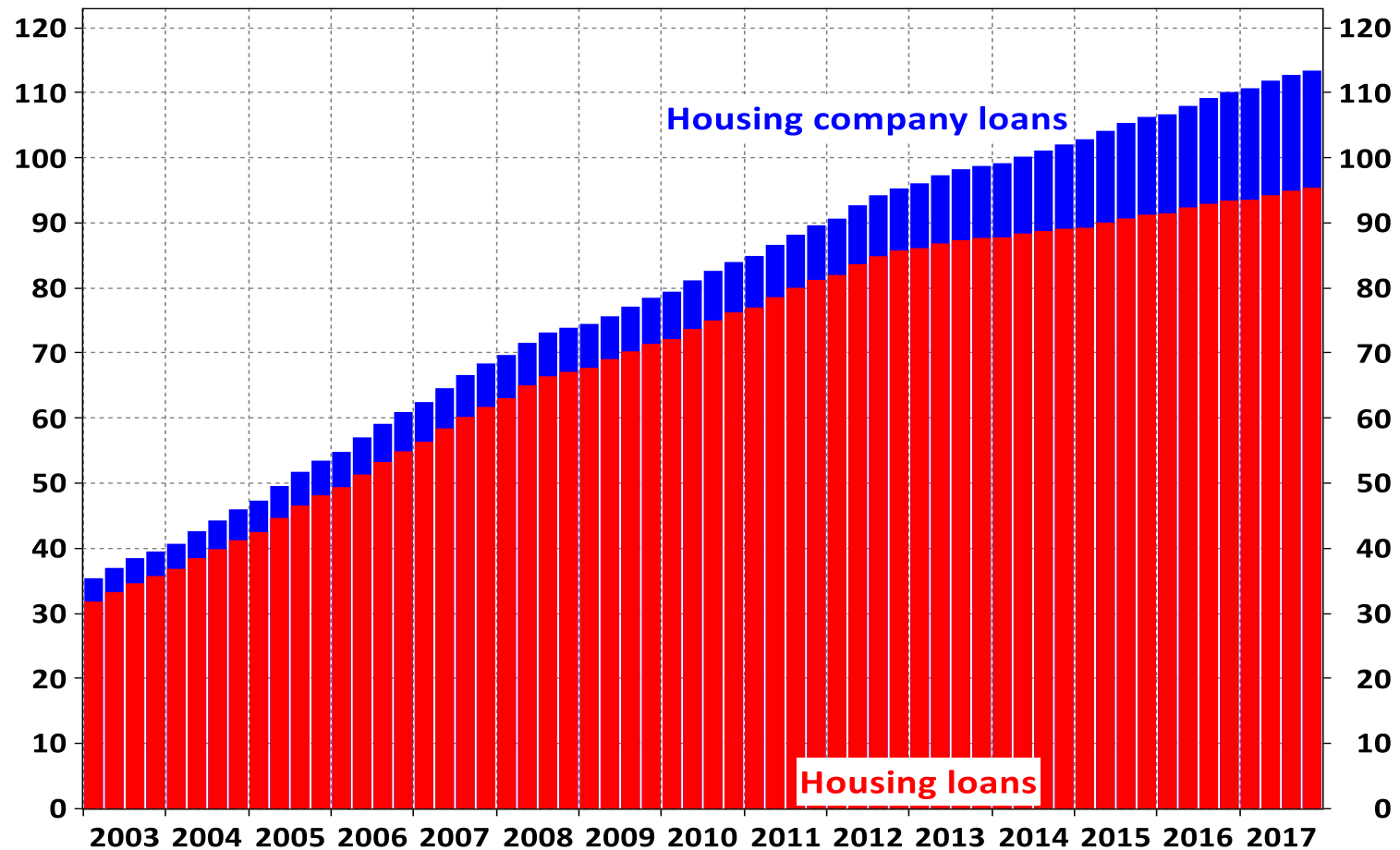
Population projection 2015-2035



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# Indebtedness increasing...

EUR billion, household indebtedness



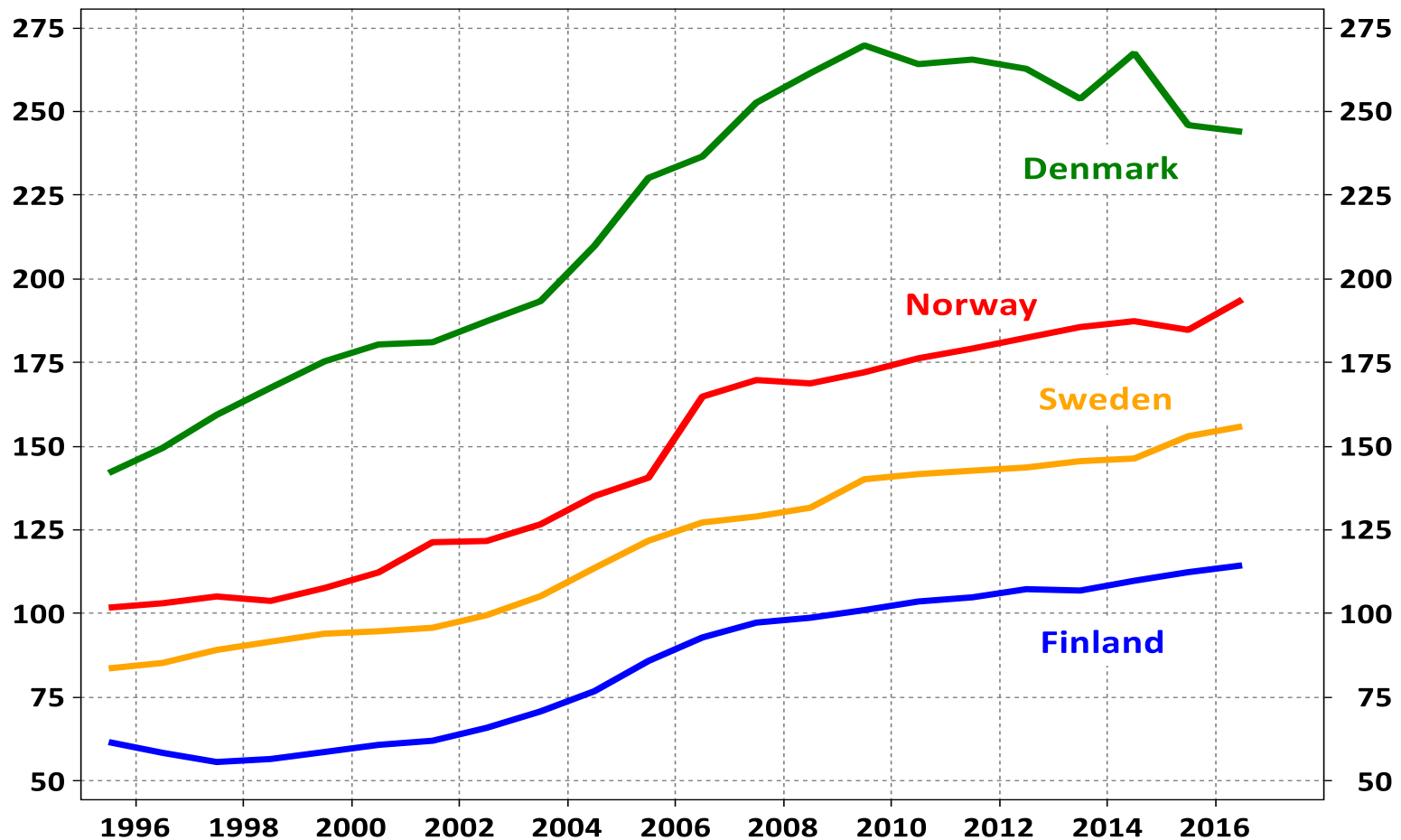
Source: Macrobond

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# ...level still low compared to peers



%, Gross Debt-To-Income Ratio of Households



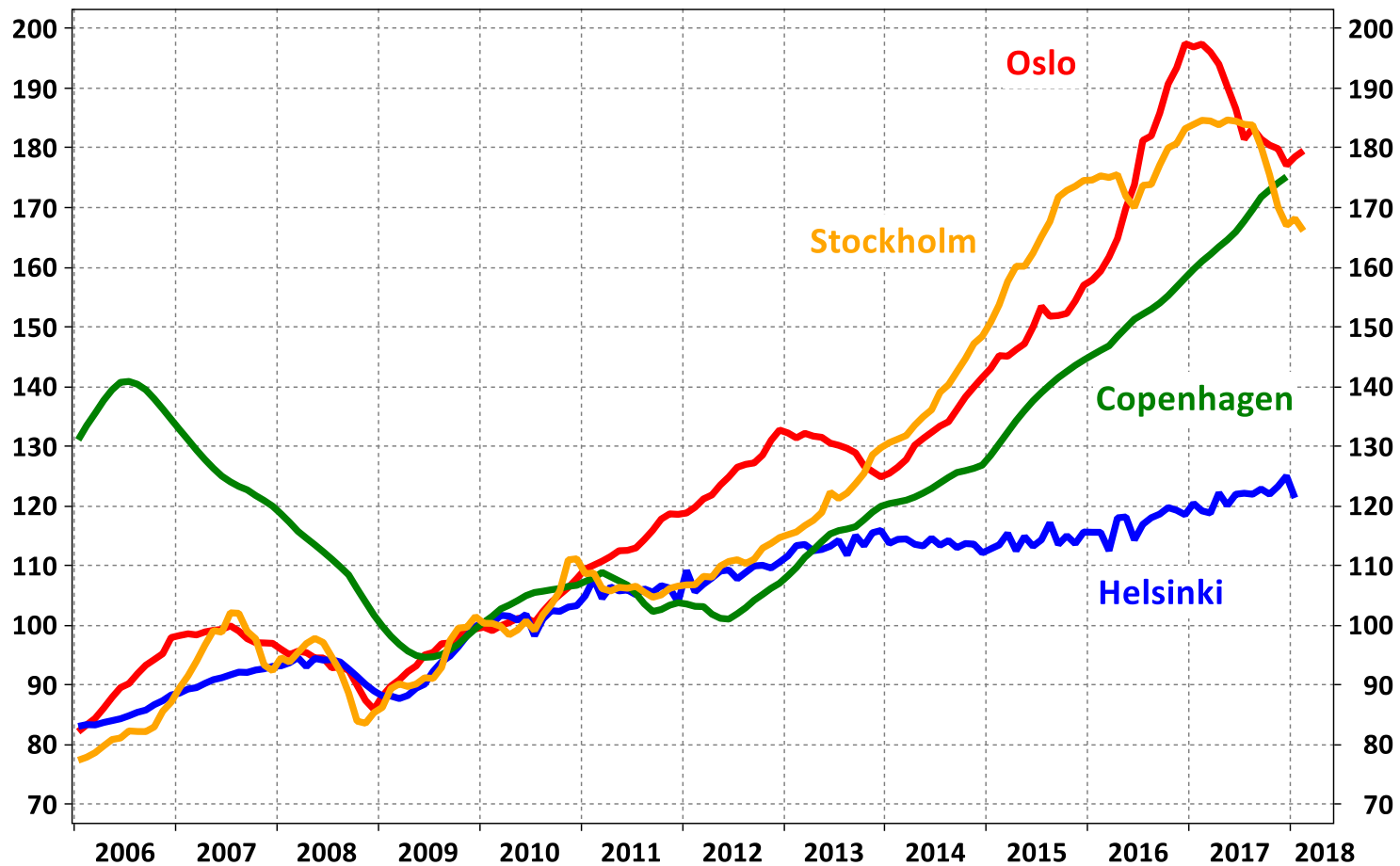
Source: Macrobond

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# Housing market stable in Finland



2010 = 100, apartment prices, seasonally adjusted



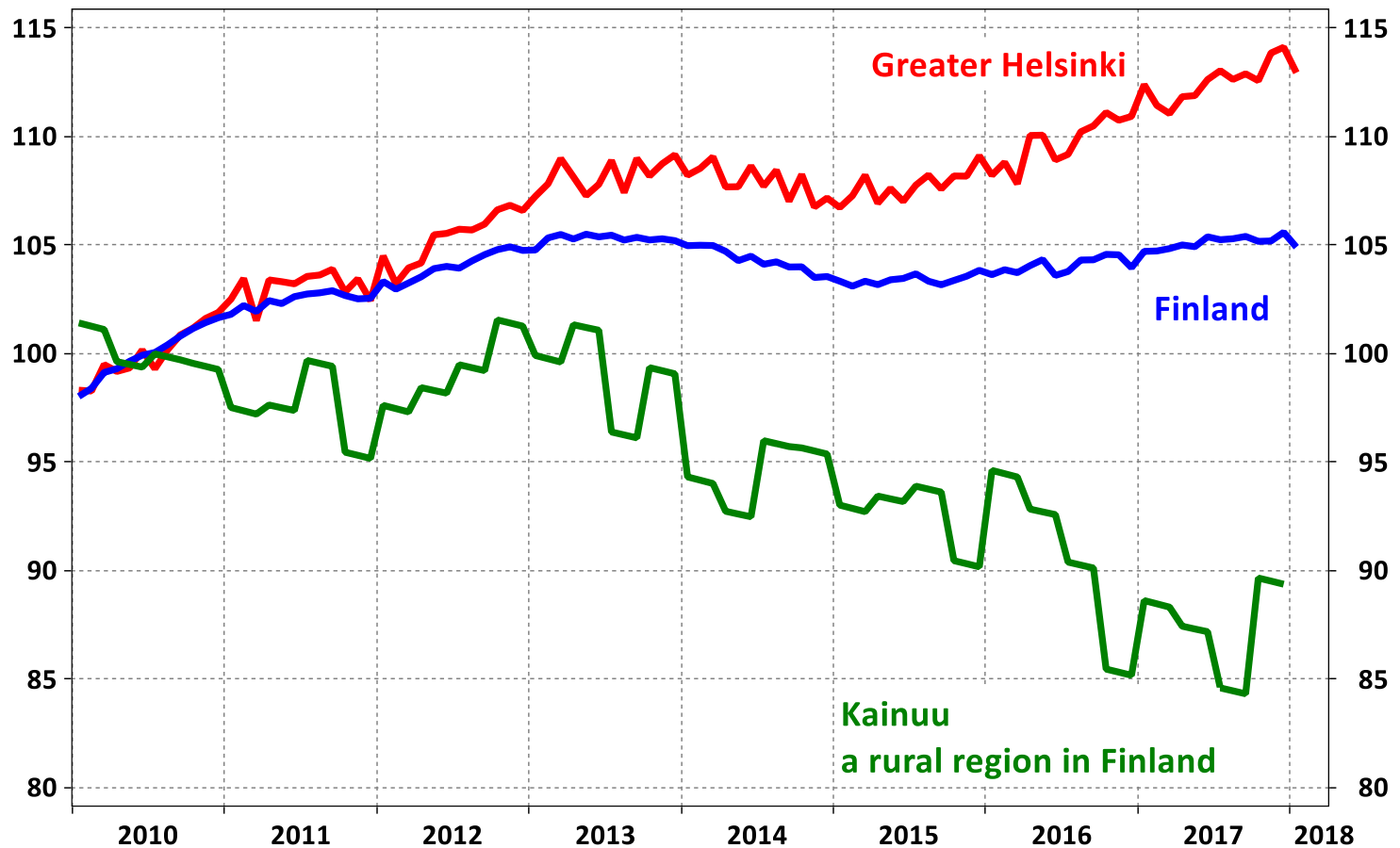
Source: Macrobond

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# Demand difference visible in prices

2010 = 100, Prices of old apartments, seasonally adjusted

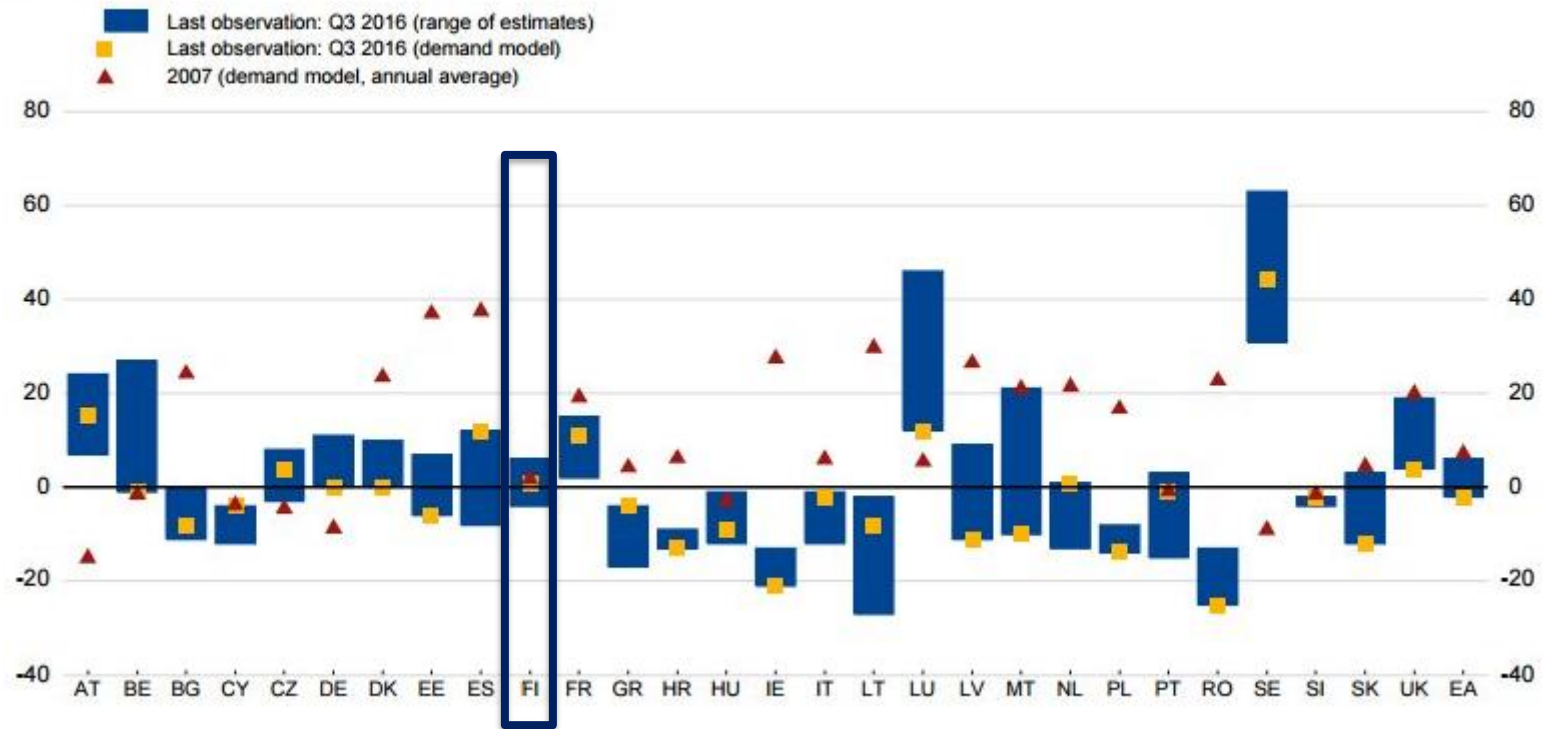


Lähde: Hypo, Macrobond

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# No housing bubble - in Finland

## 3.12 Over/undervaluation of residential property prices (EU; percentages)



Sources: Eurostat, national sources, ECB and ECB calculations.

# Financial Results

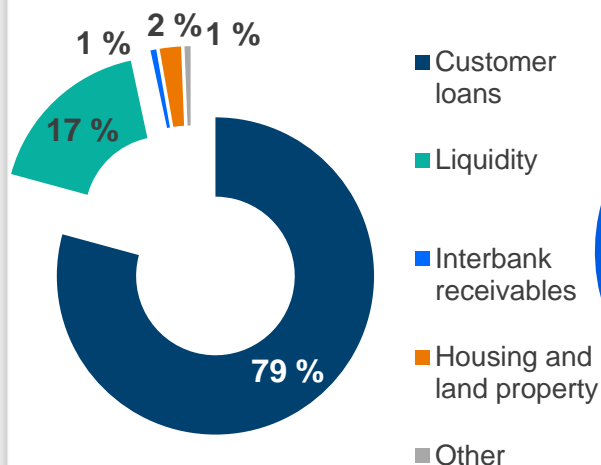
Full Year 2017



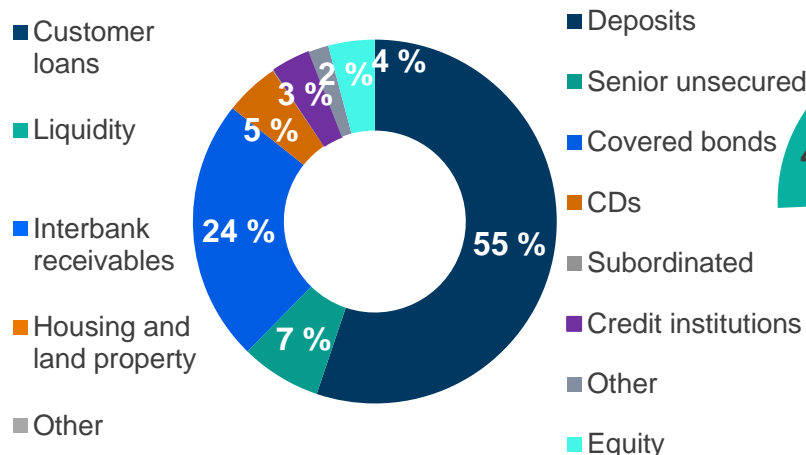
# Sustainable Growth in Balance Sheet



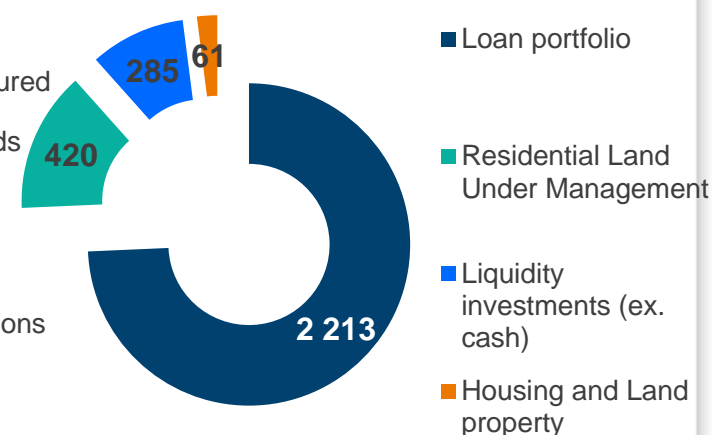
## Assets



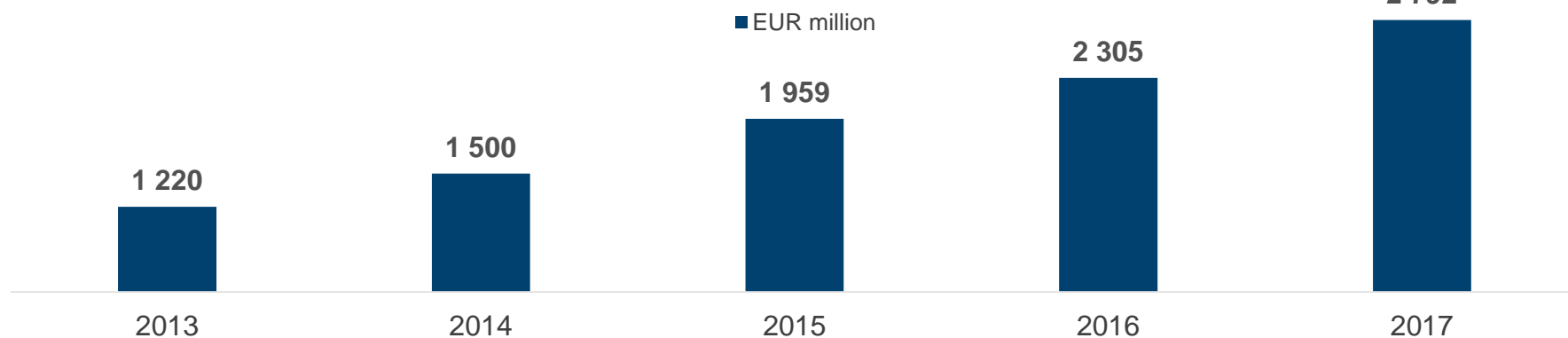
## Liabilities and Equity



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



## Hypo Group Balance Sheet Total 2013-2017



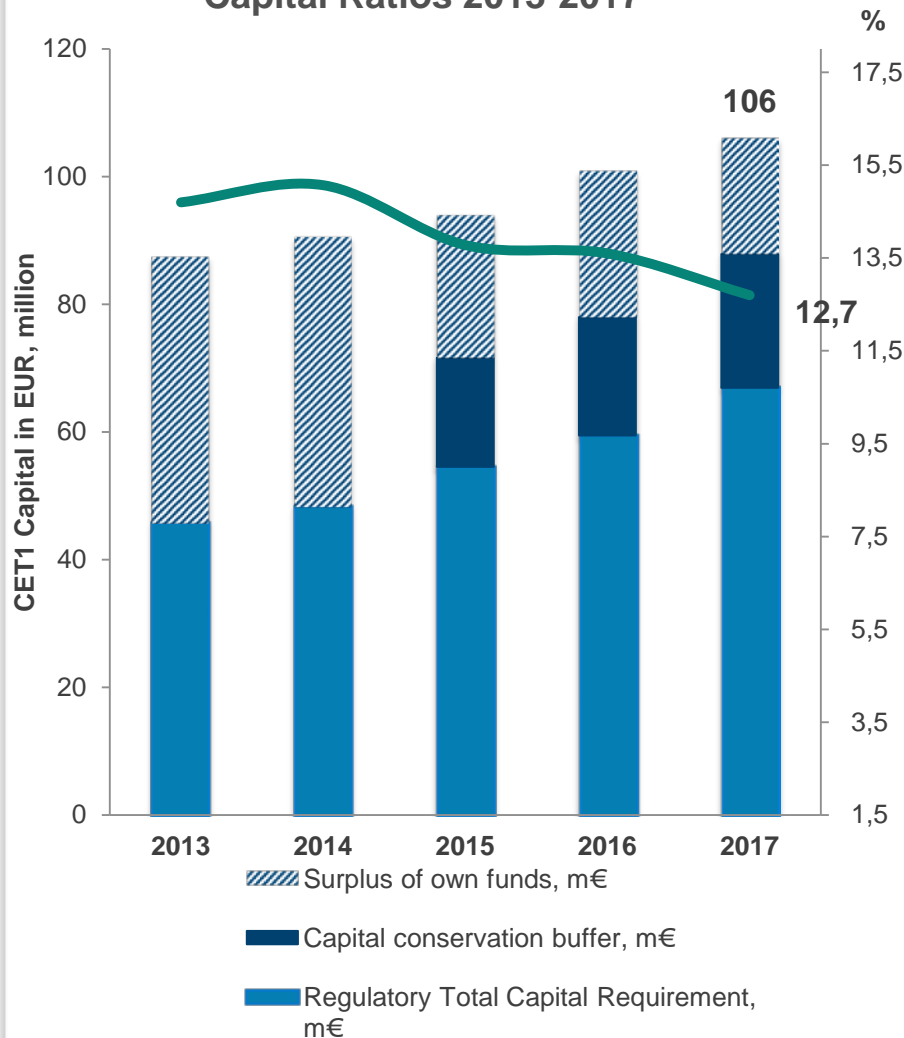
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# Solid Capital Position

## Basel III Standard Approach



Capital Ratios 2013-2017



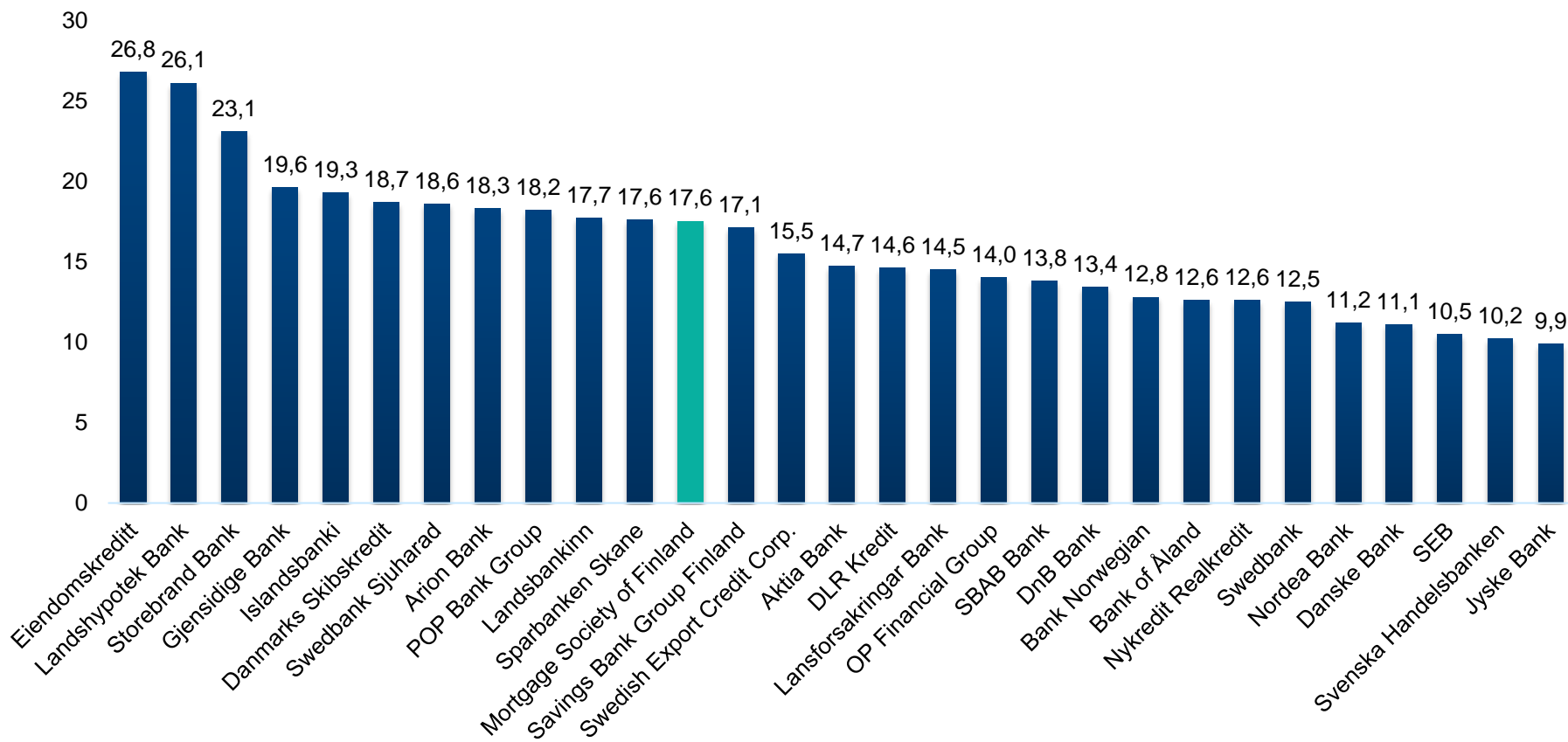
- Mutual company: all profits retained and added to the core capital
- Common Equity Tier 1 12.7%
- S&P's Risk Adjusted Capital 17.6% on 30.6.2017
  - Markedly higher than Finnish peers applying internal methods
- EUR 18.2 million of excess capital after
  - 8.0% Regulatory TC requirement and 2.5% Capital Conservation Buffer
- EUR 5.6 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 13.8%
- Basel III standardized approach risk weights
  - Lending with residential collateral: 35% risk weight
  - Housing and land investments: 100% risk weight
- Finnish FSA has not yet taken decision on the MREL requirement (if any) on Hypo

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# S&P Risk Adjusted Capital 'Very Strong' Score for Hypo



S&P's Nordic RAC Ratios 30.6.2017



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# Group Income Statement



(EUR 1 000)	4Q2017	4Q2016	2017	2016
<b>Net Interest Income</b>	2 712	1 776	8 991	5 386
<b>Net Fee and Commission Income</b>	834	890	3 525	4 439
<b>Total Other Income</b>	1 142	1 612	5 190	7 924
<b>Total expenses</b>	-2 946	- 3 188	-11 055	-10 403
<b>Operating Profit</b>	<b>1 741</b>	<b>1 090</b>	<b>6 651</b>	<b>7 347</b>

- Net Interest Income increased by 67% to EUR 9 million in 2017 (5.4 million 2016) due to loan portfolio growth and continued decrease in funding costs.
- Hypo Group's operating profit before tax decreased to EUR 6.7 million in 2017 (7.3 million).
  - Net Fee and Commission Income decreased to EUR 3.5 million (4.4 million) due to intensified competition in Land trustee services.
  - Total other income (incl. treasury operations and housing and residential land) expectedly decreased to EUR 5.2 million (7.9 million)
  - Total expenses increased to EUR 11.1 million (10.4 million)

# Group Key Financial Figures



	4Q2017	4Q2016	2017	2016
<b>Common Equity Tier 1 ratio (%)</b>	12.7	13.6	12.7	13.6
<b>Cost-to-income ratio (%)</b>	62.6	68.3	62.5	57.1
<b>Non-performing assets, % of the loan portfolio</b>	0.14	0.11	0.14	0.11
<b>Loan-to-value ratio (%)</b>	37.4	38.4	37.4	38.4
<b>Loans-to-deposits (%)</b>	144	150	144	150
<b>Loan portfolio total (m€)</b>	2 213	1 806	2 213	1 806
<b>Balance sheet total (m€)</b>	2 792	2 305	2 792	2 305

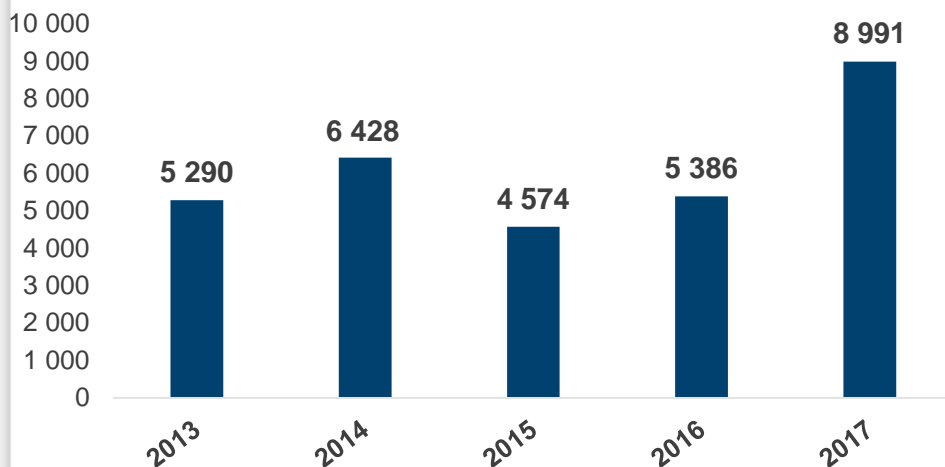
- Total assets increased to EUR 2.8 billion (EUR 2.3 billion 2016)
- Loan portfolio increased to EUR 2.2 billion (EUR 1.8 billion 2016)
- CET1 ratio decreased to 12.7% (13.6% 2016)
  - Amount of equity increased to EUR 116 million (EUR 109 million 2016).
- Average LTV improved to 37.4% (38.4% 2016)
- Group's financial position remained stable throughout the period

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# Net Interest Income Increases Despite Low Interest Rate Environment

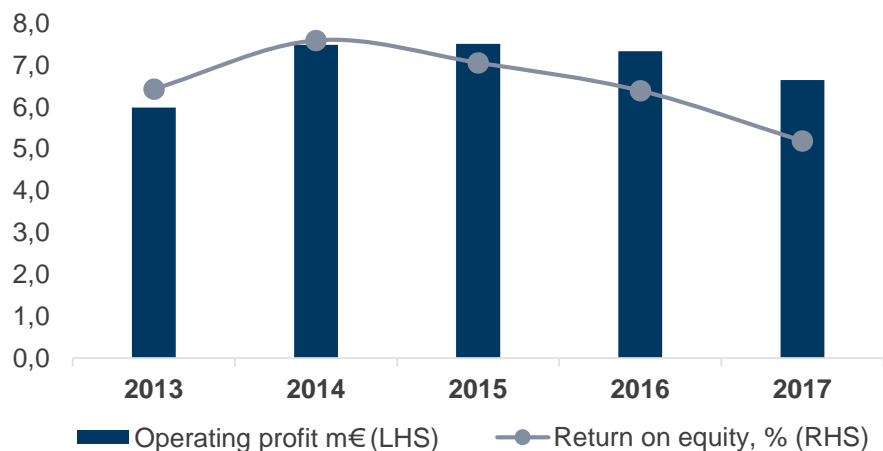


Net Interest Income 2013-2017

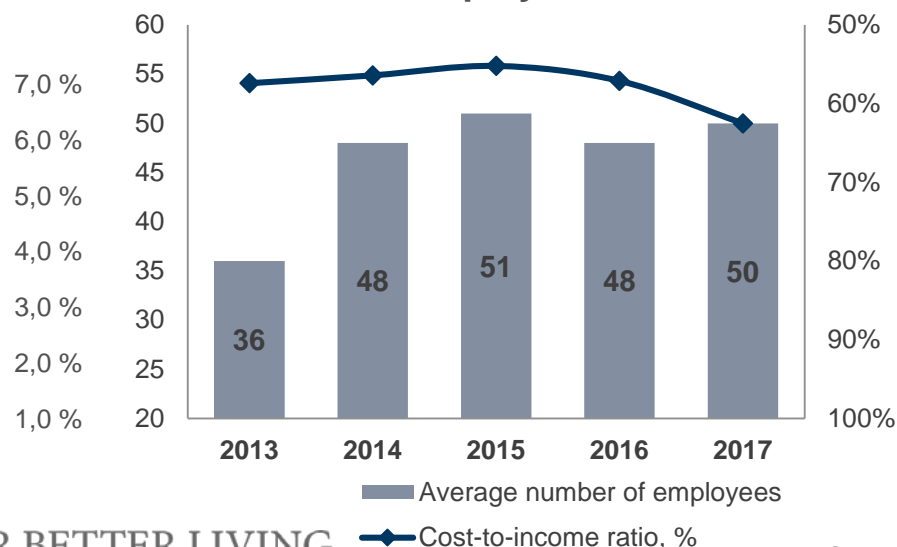


- In 2017 net interest income increased to EUR 9 million (5.4 million) due to diversification of funding sources and increased lending
- Operating profit decreased to EUR 6.7 million (7.3 million)
- Cost-to-income ratio 63% (57%)

Profitability



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



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# Hypo's Loan Book

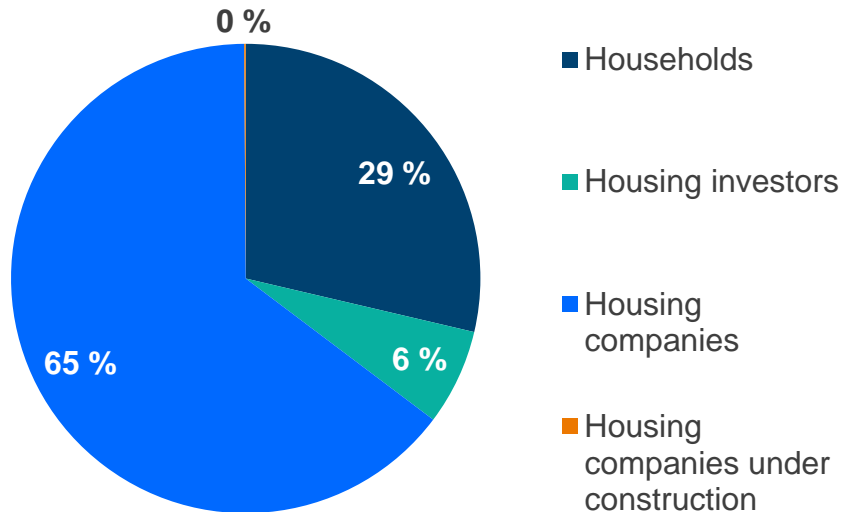


# Loan Book Overview

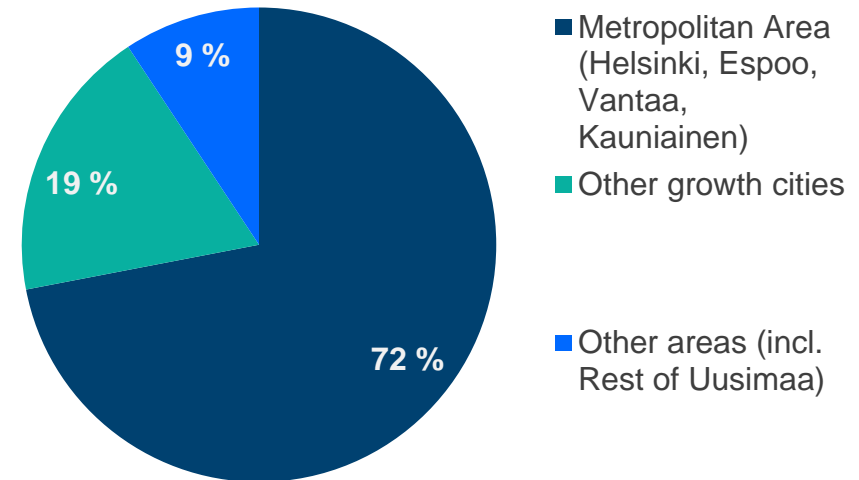


- Mortgage loans secured by residential property
- Collateral requirement is set in the Finnish Act on Mortgage Societies
- Two main customer groups
  1. Households: home mortgage, buy-to-let
  2. Housing companies: renovation loans, construction phase loans

Lending by Customer Type



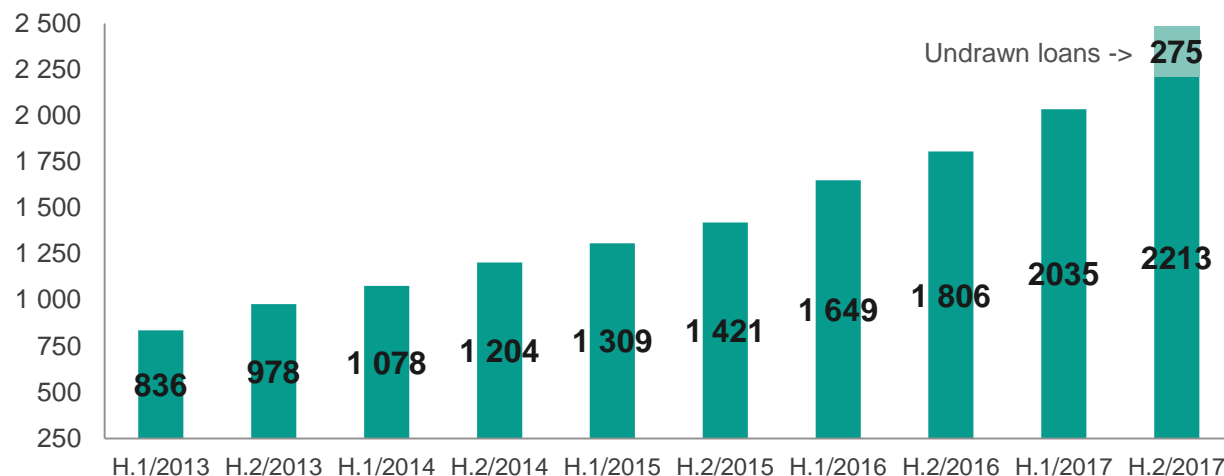
Loan Book by Customer Domicile



# Steady Loan Growth with High Quality

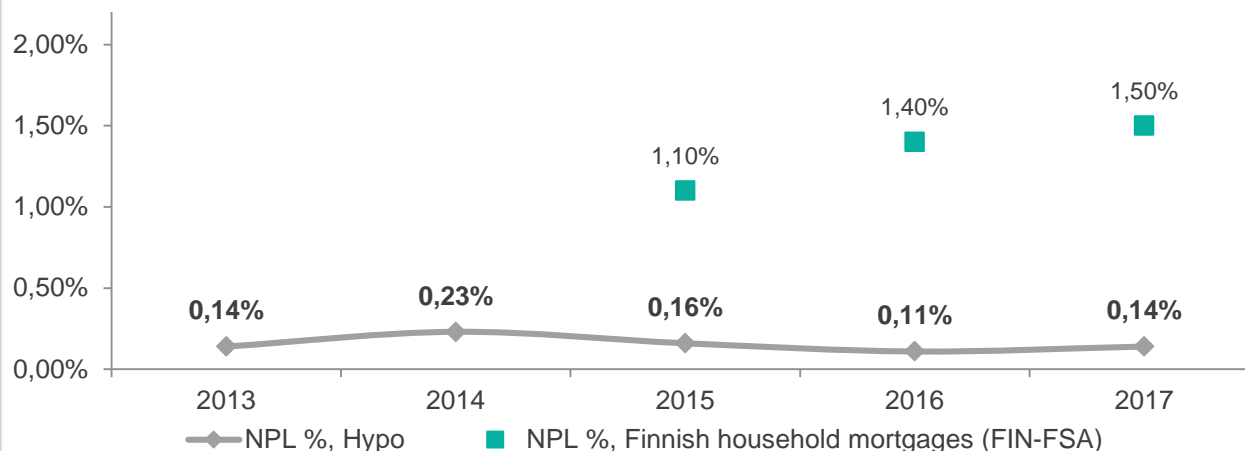


## Hypo Loan Book Total, m€



Undrawn loans -> 275

## Non-performing Loans (%)



- Hypo's loan book increased by 22% during 2017, reaching EUR 2.2 billion
- Current volume of undrawn loans is EUR 275 million
- 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 have remained very low at 0.14% of the total loans
- The quality of the loan book is well above the Finnish household mortgage average NPLs

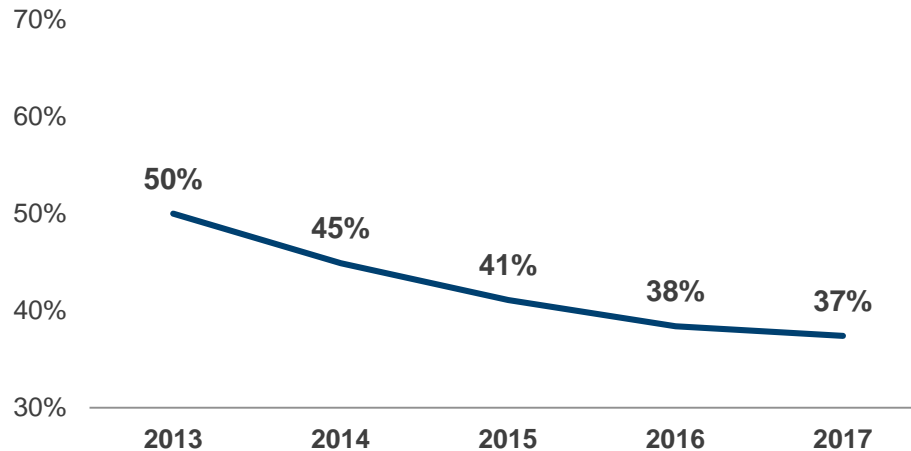
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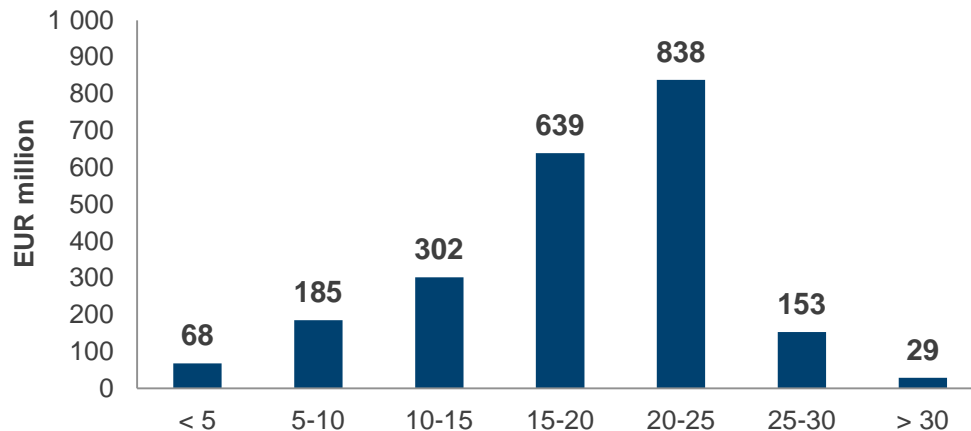
# Excellent Loan Book Quality



Hypo Loan Book Average LTV 2013-2017



Loan Book by Remaining Maturity (years) as of 31.12.2017



- Hypo's loan portfolio is entirely secured by residential property
- The average LTV (loan-to-value) has been declining to 37%
- Around 95% of the loans are amortizing and 5% bullets
- >90% of the 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 are 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



- Covered bond program inaugurated in 2016
  - Issuer is the group parent, no separate entity
  - Larger issues (>EUR 250 million) LCR level 2A eligible
- Smaller sized senior unsecured issuance is expected to continue
- All Hypo's bonds are
  - listed on the NASDAQ Helsinki Oy trading list
  - issued under Finnish legislation and Domestic Program
- 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 31.12.2017 (original amount issued)

ISIN	Issue Date	Maturity Date	Type	Nominal Issued (m€)	Coupon / pricing
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 (MS +22)
FI4000206966 (tap)	27.9.2016	10.5.2021	Covered	50	Fixed +0.25 (MS +10)
FI4000232855	7.12.2016	7.12.2022	Covered	100	Fixed +0.25 (MS +11)
FI4000266903	28.6.2017	28.6.2024	Covered	250	Fixed +0.375 (MS +9)
FI4000266903 (tap)	25.10.2017	28.6.2024	Covered	50	Fixed +0.375 (MS +4)

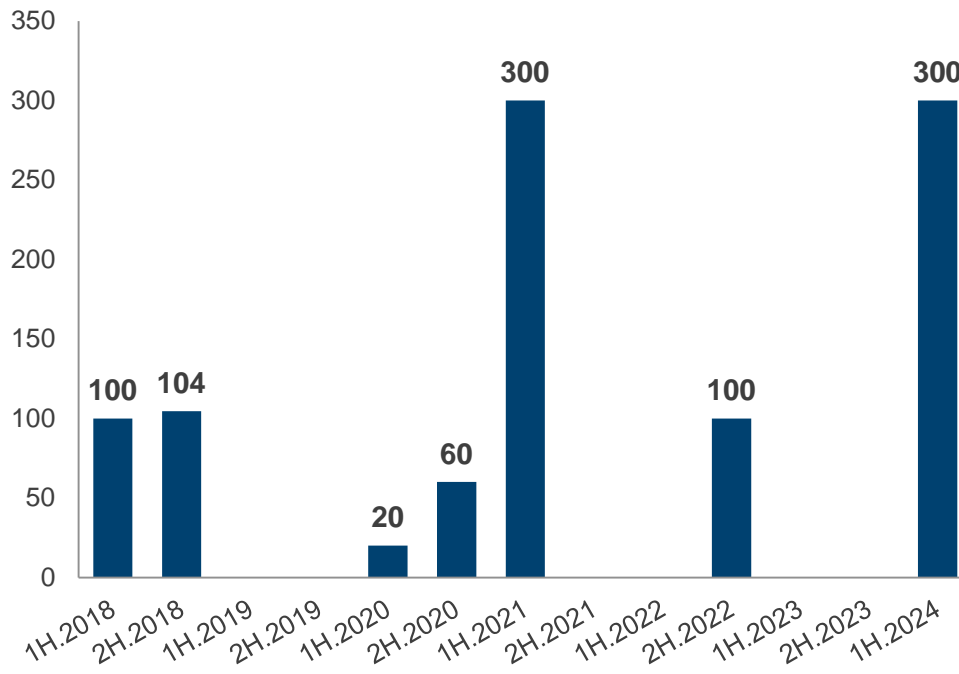
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# Diversified Funding Profile

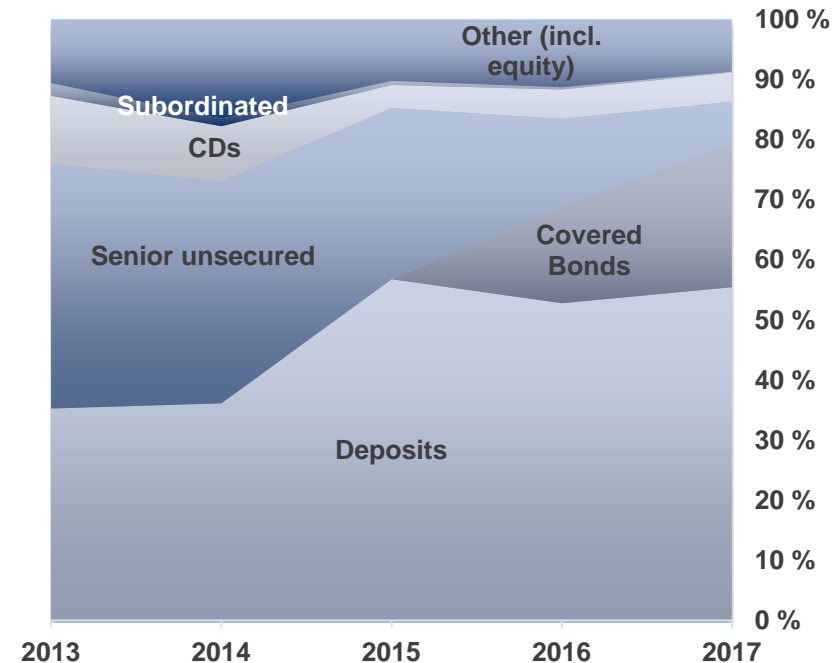


- Deposits through the AsuntoHypoPankki subsidiary form currently ~50% of total funding
- Covered bonds currently ~25% of total funding
- All outstanding senior unsecured notes (~7%) mature during 2018
  - Form and amount of future unsecured bonds depend on the pending MREL decision
- Domestic CD program support short term funding needs

## Wholesale Funding Maturity Profile



## Funding Structure 2013-2017



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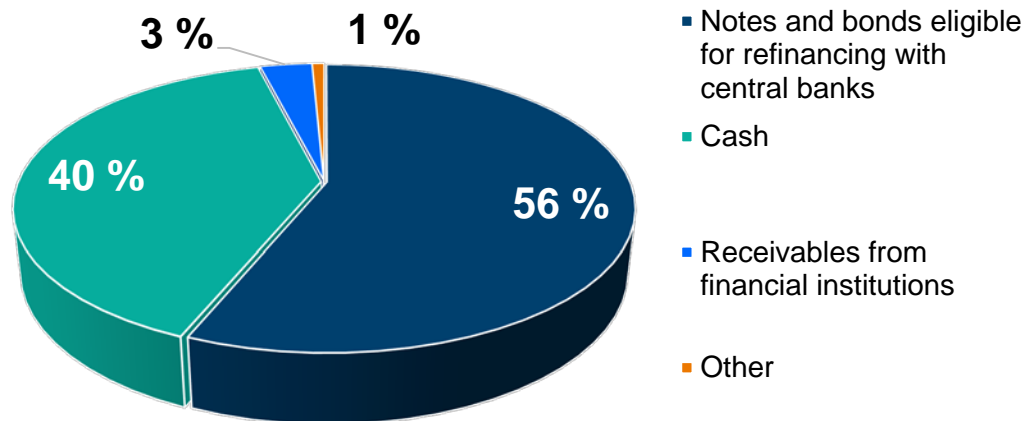
# Solid Liquidity Position



## Liquidity portfolio of EUR 506 million as of 31.12.2017

- Equaling 18.1% of total assets
- Conservative investment policy
  - 91.5% 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 148% (144% ye2016)
- Liquidity covers maturing wholesale funding for the following 40 months

### Liquidity Portfolio Composition



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# Covered Bonds

## Overview





# Hypo Covered Bonds

## Executive Summary as at 31.12.2017

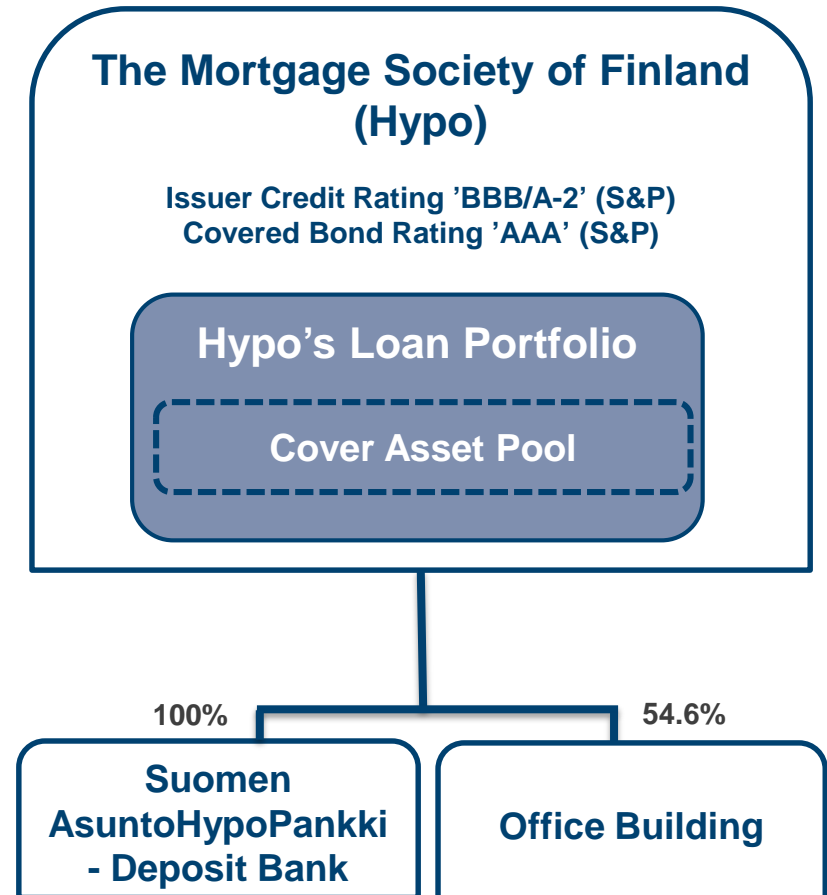


- Issuer is the Group parent, no separate covered bond issuer
- Total amount outstanding EUR 700 million
  - EUR 300 million, Maturity Date May 10, 2021 with 1 year soft-bullet structure
  - EUR 100 million, Maturity Date Dec. 7, 2022 with 1 year soft-bullet structure
  - EUR 300 million, Maturity Date June 28, 2024 with 1 year soft-bullet structure
- Covered bonds rated 'AAA' (st.) by the S&P
- Cover pool consists 100% of Finnish residential property collateral
  - Regulatory risk weight of the pool assets is 35% (Basel III standard method)
  - All collateral located in selected prime growth centers
- Current WALTV 32.0%
- Current nominal overcollateralization 28.6%
  - Commitment to keep the OC all times at a level commensurate with a 'AAA' rating from S&P Global Ratings
  - Legally binding OC requirement: 2% of the net present value
- Hedging agreements in place to mitigate the interest rate risk
- Hypo is a member of ECBC

# Simple Structure, High Transparency



- Covered bonds issued directly from Hypo's balance sheet
  - Issuer the group parent Hypo
  - No separate covered bond entity
  - The assets are segregated by the covered bond register
- Issuer Credit Rating 'BBB/A-2' (st.)
- Covered Bond Rating 'AAA' (st.)



# Cover Asset Pool



# Eligibility Criteria for the Cover Pool



<b>Origination</b>	<ul style="list-style-type: none"><li>• Issuer the Mortgage Society of Finland (Hypo)</li><li>• Only mortgage loans originated by Hypo</li></ul>
<b>Assets Categories</b>	<ul style="list-style-type: none"><li>• 100% Finnish residential assets<ul style="list-style-type: none"><li>• Retail mortgages</li><li>• Housing company residential mortgages (common debt between multiple individuals)</li></ul></li></ul>
<b>Customer Credit Quality</b>	<ul style="list-style-type: none"><li>• No arrears (&gt;30 days)</li><li>• No negative credit history</li><li>• Over 70% of the pool loans have the best internal credit class 'A'</li></ul>
<b>Collateral</b>	<ul style="list-style-type: none"><li>• Maximum LTV limit 70%</li><li>• Current Pool WALTV 32.0%</li><li>• Finnish residential collateral, located in prime growth centers</li><li>• Collateral valuations updated quarterly</li><li>• Commitment to keep OC all times at the level commensurate with S&amp;P rating 'AAA'</li></ul>
<b>Type of Properties</b>	<ul style="list-style-type: none"><li>• Primary residences</li><li>• Limited liability housing companies (multiple individuals)</li></ul>
<b>Type of Products</b>	<ul style="list-style-type: none"><li>• Principal repayment mortgages<ul style="list-style-type: none"><li>• 99% floating interest rate</li></ul></li><li>• No revolving/flexible loans</li></ul>

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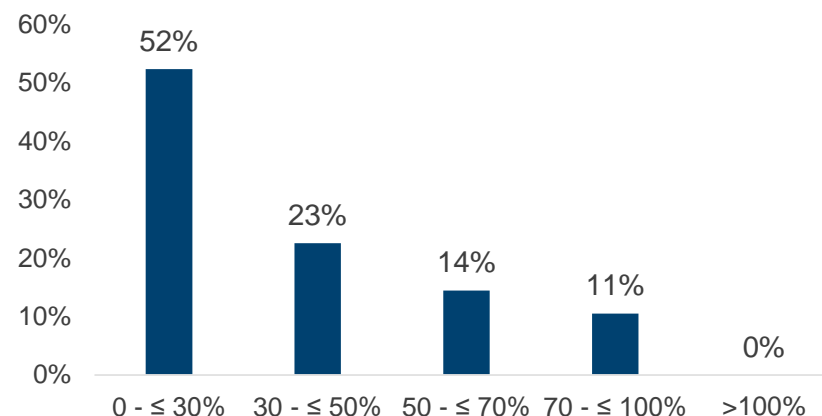
# Cover Asset Pool Data (1/3)



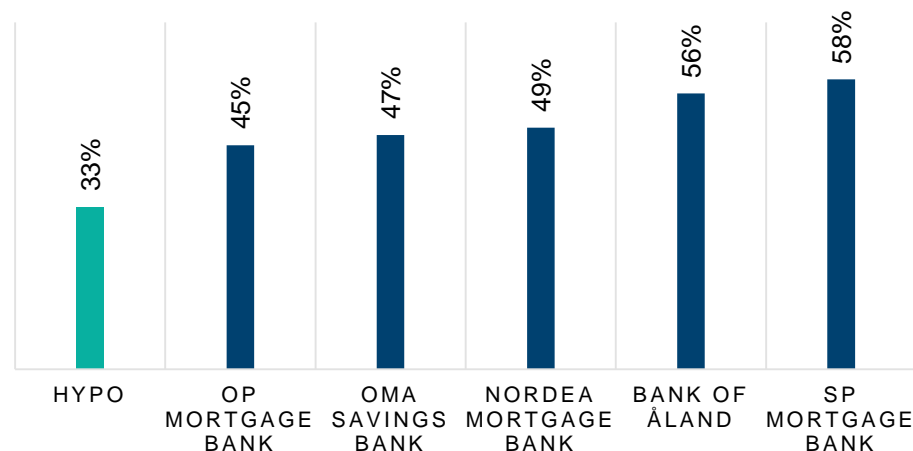
## Cover Pool Data as at 31.12.2017

<b>Total Cover Pool (nominal)</b>	EUR 900 038 688
<b>Eligible Cover Pool</b>	EUR 889 954 442
<b>Average Loan Balance</b>	EUR 206 573
<b>No. of loans</b>	4 357
<b>No. of properties</b>	3 794
<b>No. Clients</b>	4 404
<b>WA seasoning (months)</b>	41
<b>WA remaining term (months)</b>	224
<b>WA LTV (indexed)</b>	32.0%
<b>WA LTV (unindexed)</b>	32.7%
<b>Interest</b>	Variable 99% Fixed 1%
<b>Loans in arrears (&gt;30 days)</b>	0.00%
<b>OC level (nominal)</b>	28.6%
<b>OC level (eligible)</b>	27.1%
<b>Pool Type</b>	Dynamic

## LTV Distribution



## WALTV\* of Finnish Issuers' Cover Pools, (%)



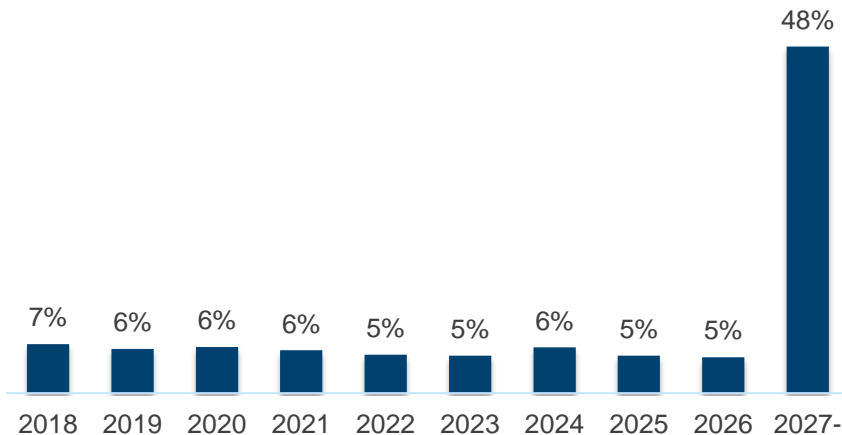
\*Source: Bloomberg

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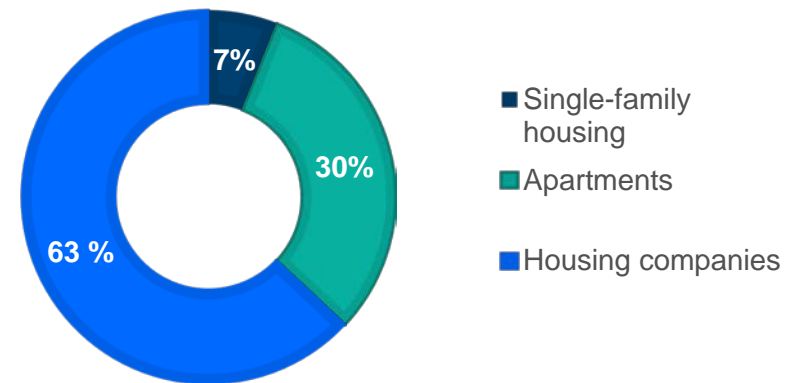
# Cover Asset Pool Data (2/3)



## Cover Pool Loan Maturity Profile Contractual Amortizations



## Cover Pool Collateral Types



- Balanced cover pool composition: around 40% of retail mortgages and 60% of housing company residential mortgages
- All loans with contractual repayment schedule
- Stable amortization profile
- No public sector loans
- Currently no substitute assets

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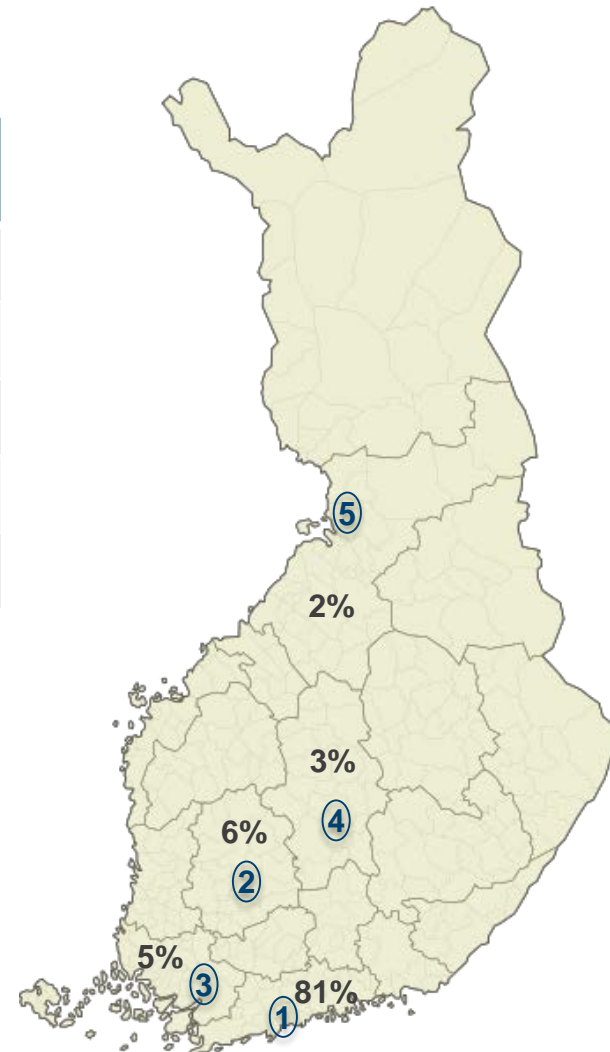
# Cover Asset Pool Data (3/3)



## Geographical Distribution as at 31.12.2017

	Region	Major City	Share of the Pool
1	Uusimaa	Helsinki	81%
2	Pirkanmaa	Tampere	6%
3	Varsinais-Suomi	Turku	5%
4	Keski-Suomi	Jyväskylä	3%
5	Pohjois-Pohjanmaa	Oulu	2%

Hypo's strategic choice is to operate only in prime growth centers.



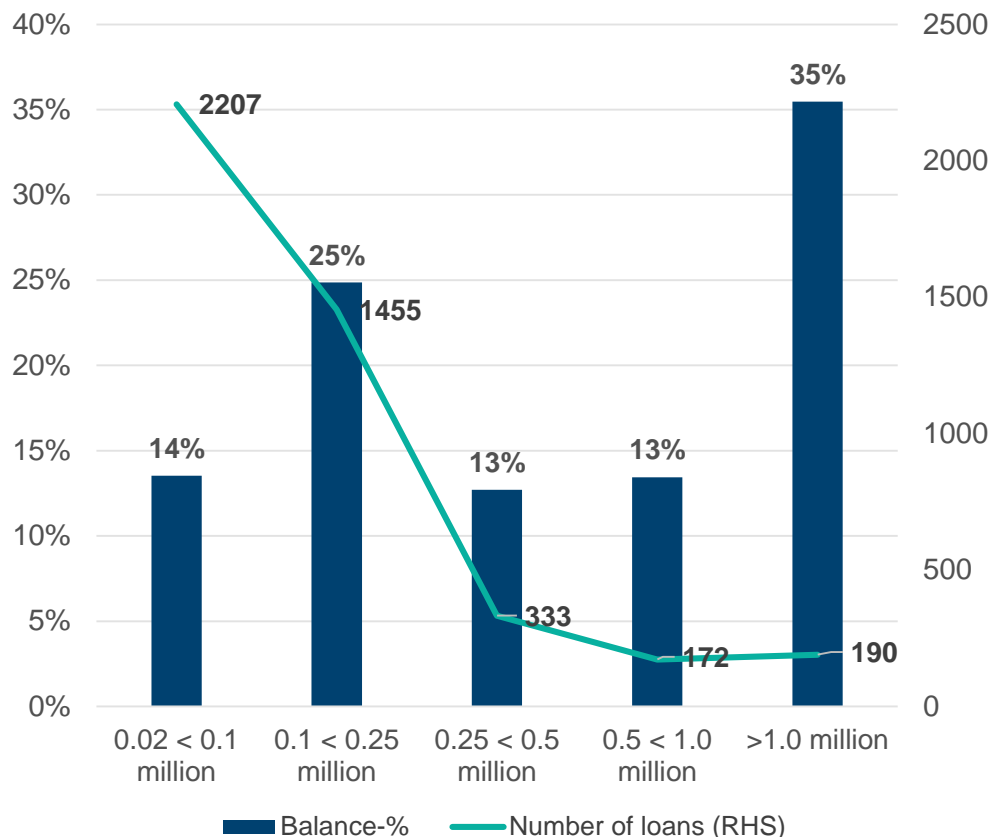
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# Cover Pool Loan Size Distribution



## Loan Size Distribution: Share and Number of Loans



- 40% of loans in the cover pool have remaining balance below EUR 250,000.
- Loans with remaining balance > 1 million are housing company loans (= common debt between multiple individuals)
- Loans with remaining balance > 3 million are excluded from the cover pool
- Loans with remaining balance < 20,000 are excluded from the cover pool

SECURE WAY FOR BETTER LIVING.

# Cover Asset Pool Stress Test



## Cover Pool Resilient to House Price Decline

LTV	House price decline 0%	House price decline 10%	House price decline 20%	House price decline 30%	House price decline 40%
0- ≤ 40%	596	555	500	445	403
40- ≤ 70%	209	200	208	220	207
70- ≤100%	95	137	159	140	124
>100%		8	32	95	166
<b>Pool total (nominal), EUR million</b>	900	893	868	805	734
<b>OC (nominal)</b>	28.6%	27.5%	24.0%	15.0%	4.8%

- The stress test assumes that no action is taken to include new loans into the pool.
- Even in an extreme stress scenario, where house prices decline by 40% overnight, the pool total still exceeds EUR 700 million (the total outstanding amount of bonds).

# Contemplated Transaction



## Indicative Terms and Conditions

<b>Issuer</b>	The Mortgage Society of Finland (Suomen Hypoteekkiyhdistys)
<b>Expected Rating</b>	'AAA' (st.) by S&P Global Ratings
<b>Status</b>	Covered
<b>Amount</b>	EUR 250 million
<b>Expected LCR Eligibility</b>	Level 2A
<b>Maturity</b>	[5 or 7 years, soft-bullet]
<b>Coupon</b>	Floating or Fixed
<b>Coupon payments</b>	3 months (floating) or Annual (fixed)
<b>Documentation</b>	Domestic MTN Programme, Finnish Law
<b>Clearing</b>	Euroclear Finland
<b>Listing</b>	Nasdaq Helsinki
<b>Denominations</b>	EUR 100,000 + 100,000
<b>Lead Managers / Bookrunners</b>	Nordea Bank AB (publ), OP Corporate Bank plc, DZ Bank AG
<b>Target Market</b>	Eligible Counterparties and Professional Clients (as defined in Directive 2014/65/EU)



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