

# Hypo Investor Update 2Q2018

Debt Investor Presentation



Published on August 10, 2018

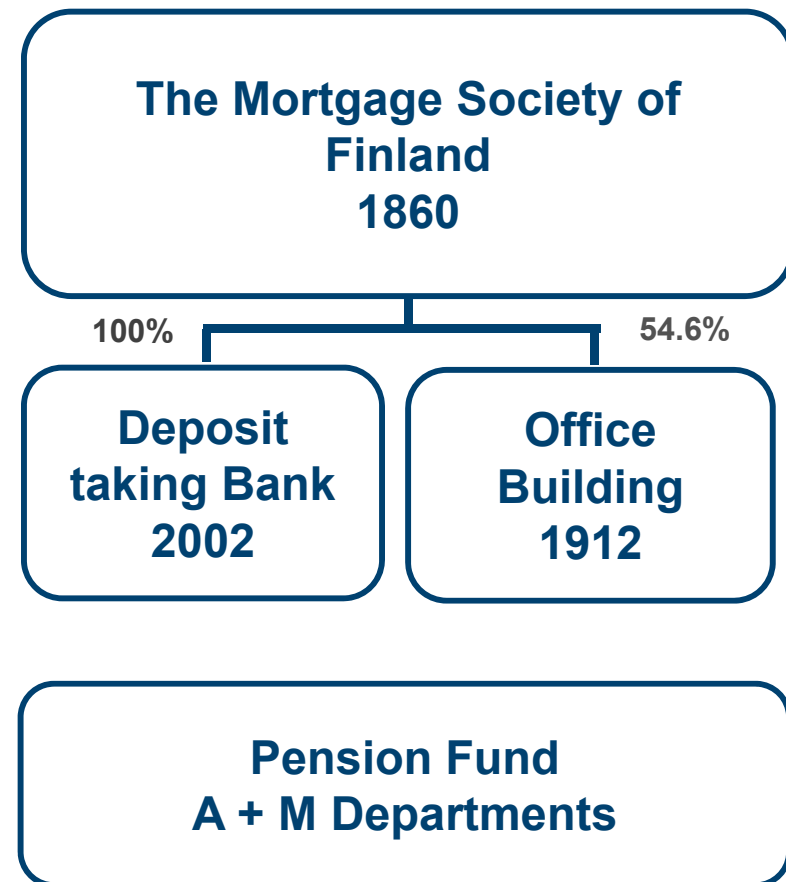


**Secure Way for Better Living**

# 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 0.12%)
- Established and regular issuer in Finland
- Total assets EUR 3.0 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

### 2. Hypo capital and earnings

**+2**

- Very strong capitalization
- Strong asset quality and 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 strong loan loss track record

### 4. Hypo liquidity and funding

**-1**

- Improving funding profile with increasing share of covered bonds
- 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

Tärkeimmät uutiset ja terävimmät näkemykset nyt.

## Hypo: Suurin vastuu asuntokuplasta on vuokranantajilla ja heidän rahoittajillaan



## Hypo: Kasvukeskuksissa asuntojen vasta alkanut - syrjäseuduilla pahin

## Hypo: Aktiivimalli tuo tilastoihin valetyöllisiä

Suomen Hypoteekkiyhdistys (Hypo) arvioi, että talouden menetetty vuosikymmen on nyt takana. Vetovastuu talouskasvusta siirtyy vihdoin kuluttajilta ja rakennusala ventialoille.

Työttömyysturvan aktiivimalli 12.1.2018 klo 00:01

yle UUTISET

Etusivu Tuoreimmat Urheilu Sää Presidentinvaalit Kotimaa Ulkomaat

OMX HELSINKI -0,37% 9 755,19

DOVRE GROUP PL 10:00

TALOUSSANOMAT

ETUSIVU

UUTISET

PÖRSSI

## Hypo: Asuntojen hinnat kasvukeskuksissa, muu synkempää – kasvukes-

## Asuntolaina ei ole enää kahvipaketti vaan mäyräkoira, ja kankkunen uhkaa

Yli puolet ensiasunnoista ostetaan pääkaupunki Tampereelta eli niin kutsutusta kasvukolmiosta.

Asuntojen hinnat 17.11.2017 klo 06:00

liikevoitto 55 vai 556 miljoonaa?

Tänään 8:37

LIFESTYLE

"Asuntokuplien syntyminen po-

## Hypon Pauna: ASP remontoitava

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

Antti Lehmusvirta

asuntokuplasta ja kauppalehti

### ASP-säästäminen

ASP-säästäminen on 18-20-vuotiaiden henkilöiden aloittama säästämisen aloitus. Säästäminen on 18-20-vuotiaiden henkilöiden aloittama säästämisen aloitus. Säästäminen on 18-20-vuotiaiden henkilöiden aloittama säästämisen aloitus.

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–Vaikka ymmärrän Fivan toimia, toivoisin täsmätoimia. Oikeampi ja tehokkaampi osoite kirjaimellisesti oman kodin ostajien lainakaton sijasta asuntosijoittajat ja rs-lainat, Hypon toimitusjohtaja Ari Pauna. (KUVA: Heikki Saukkomaa/Lehtikuva)

Julkaistu: 19.3. 8:05

f Jaa

t Twiittaa

in

## Finanssivalvonta saattaa tänään kiristää asuntolainojen laina

## Hypo Ari Pauna ei ihmettelisi, jos lainakatto kiristytisi, mutta sitä ennen sijoitusasuntolainoille kuin tavallisille lainasiakkaille.

Heikki Saukkomaa

Heikki Saukkomaa/Lehtikuva

Hypoteekkiyhdistyksen toimitusjohtaja Ari Pauna on ollut viime vuosien tapahtumien keskeinen henkilö. Hän on ollut mukana asuntokuplasta, joka on ollut mukana asuntokuplasta, joka on ollut mukana asuntokuplasta.



"En ihmettele, että asuntolainojen rahoittamisesta tulee näin jännä. Kun sijoittaja, esimerkiksi pankki, alkaa myydä vain markkinoita". Ari



## Velkapelko heräsi

Suomalaiset ovat ensiysvelkaantuneita, asuntolainojen korot ovat ensiyslainailla ja korot nousivat. Fiva huolestui yhtiöstä. Pankit eivät jaa huolta, mutta Hypo ymmärtää.

Heikki Saukkomaa

Heikki Saukkomaa/Lehtikuva

Tuomas Hytönen

Tuomas Hytönen/Lehtikuva

ensimmäinen ensiysvelkaantuneita ja lainat ovat ensiyslainoita.

"Korot nousivat, mutta ensiysvelkaantuneita ei ole vielä tullut nähtyä. Korot nousivat, mutta ensiysvelkaantuneita ei ole vielä tullut nähtyä."

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19.3.2017

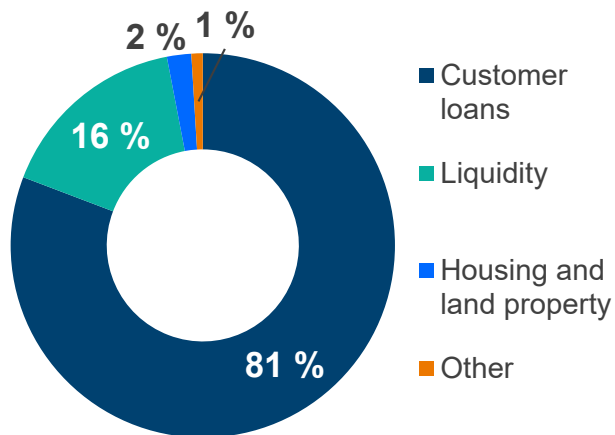
# Financial Results



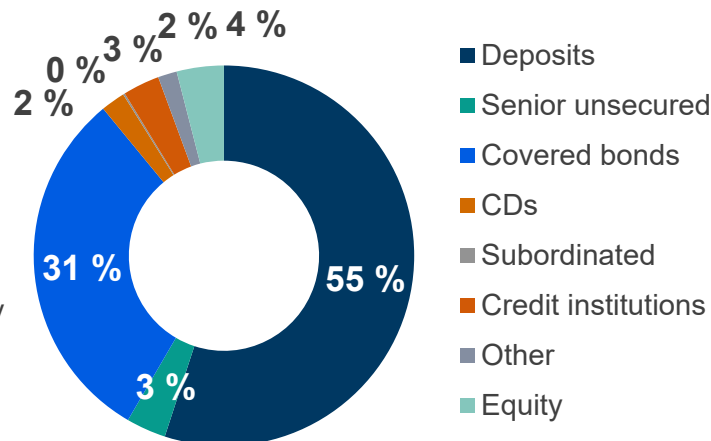
# Strong Balance Sheet



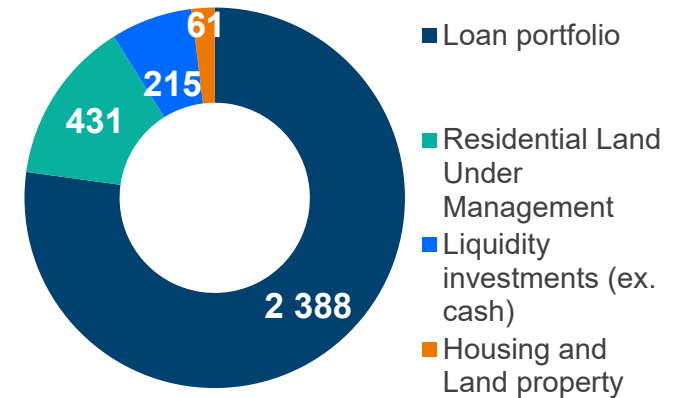
## Total Assets



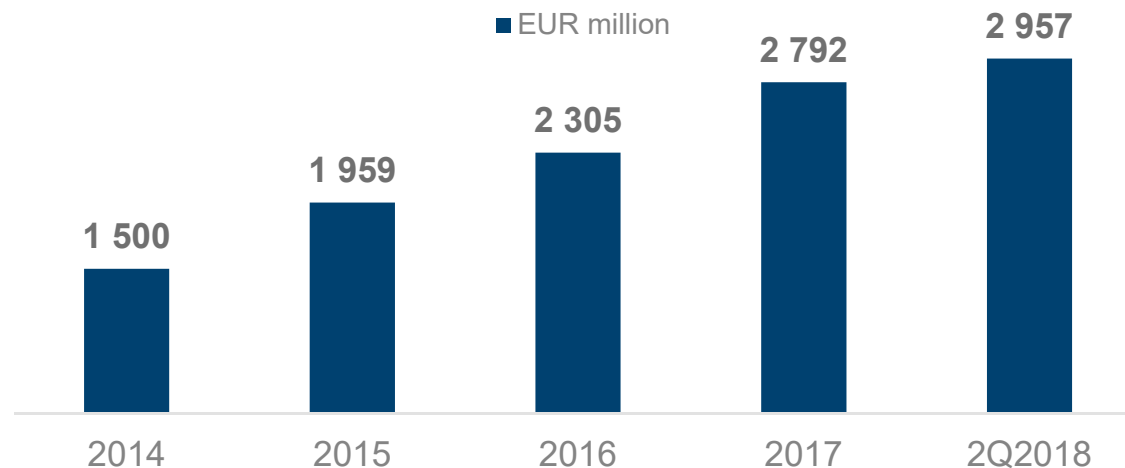
## Liabilities and Equity



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



## Hypo Group Balance Sheet Total



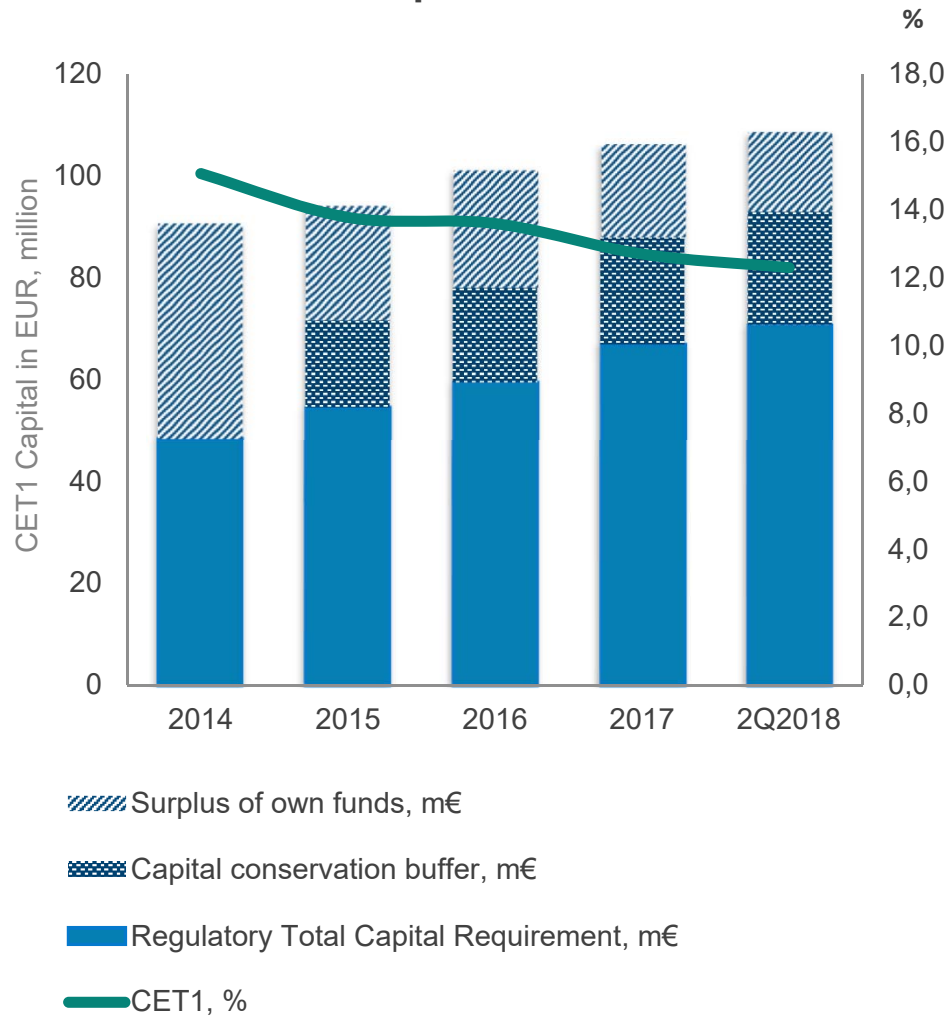
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# Solid Capital

## Basel III Standard Approach



Capital Ratios



- Mutual company: all profits retained and added to the core capital
- Common Equity Tier 1 12.3%
- S&P's Risk Adjusted Capital 17.1% on 31.12.2017
  - Markedly higher than Finnish peers applying internal methods
- EUR 15.6 million of excess capital after
  - 8.0% Regulatory TC requirement
  - 2.5% Capital Conservation Buffer
- EUR 5.3 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 13.3%
- Basel III standardized approach risk weights
  - Lending with residential collateral: 35% risk weight
  - Housing and land investments: 100% risk weight



# Group Income Statement



(EUR 1 000)	2Q2018	2Q2017	2017	2016
<b>Net Interest Income</b>	5 775	3 951	8 991	5 386
<b>Net Fee and Commission Income</b>	1 938	1 883	3 525	4 439
<b>Total Other Income</b>	1 313	3 069	5 190	7 924
<b>Total expenses</b>	- 6 016	- 5 769	-11 055	-10 403
<b>Operating Profit</b>	<b>3 009</b>	<b>3 134</b>	<b>6 651</b>	<b>7 347</b>

- Net Interest Income continued to grow to EUR 5.8 million (EUR 4.0 million) due to loan portfolio growth and lower funding costs.
- Hypo Group's operating profit was EUR 3.0 million (EUR 3.1 million 2Q17).
- Net Fee and Commission Income totaled EUR 1.9 million (1.9 million 2Q17).
- Total other income (incl. treasury operations and housing and residential land) amounted to EUR 1.3 million (EUR 3.1 million).
- Total expenses increased to EUR 6.0 million (5.8 million 2Q17)

# Group Key Financial Figures



	2Q2018	2Q2017	2017	2016
<b>Return on Equity (%)</b>	4.3	4.7	4.9	5.8
<b>Common Equity Tier 1 ratio (%)</b>	12.3	13.2	12.7	13.6
<b>Cost-to-income ratio (%)</b>	66.4	64.9	62.5	57.1
<b>Non-performing assets (%)</b>	0.12	0.13	0.14	0.11
<b>Loan-to-value ratio (%)</b>	36.4	38.3	37.4	38.4
<b>Loans-to-deposits (%)</b>	146.8	157.4	143.6	150.2
<b>Loan portfolio total (m€)</b>	2 388	2 035	2 213	1 806
<b>Balance sheet total (m€)</b>	2 957	2 627	2 792	2 305

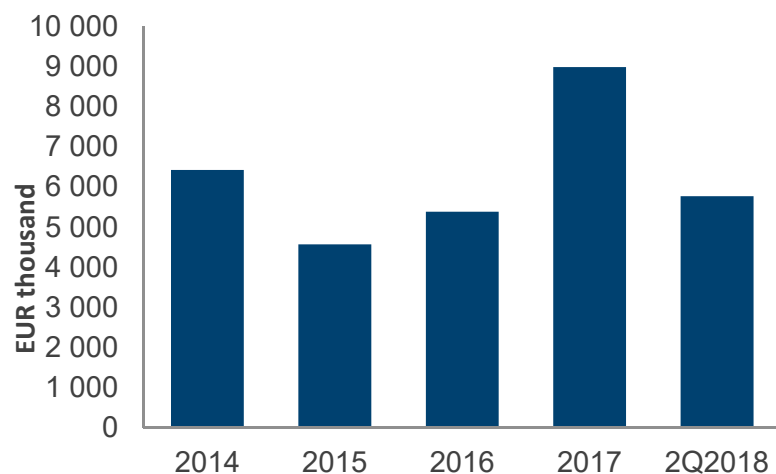
- The contribution to the Financial Stability Authority, which was recognized in full during the first half year, increased total costs despite the cut of operating costs by over 3% compared to the previous year
- Total assets increased to EUR 3.0 billion and loan portfolio increased to EUR 2.4 billion
- CET1 ratio decreased to 12.3% and the amount of equity increased to EUR 118.5 million
- Group's financial position remained stable throughout the period

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# Net Interest Income Increases Despite Low Interest Rate Environment

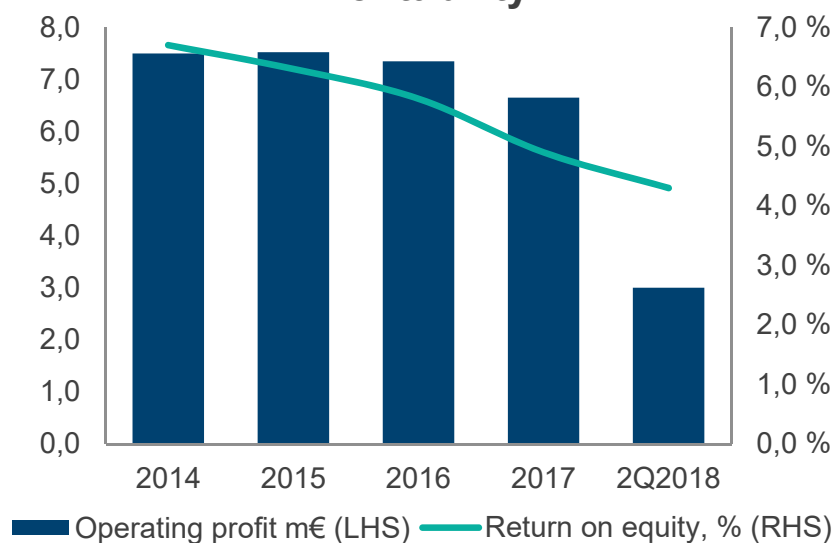


**Net Interest Income**

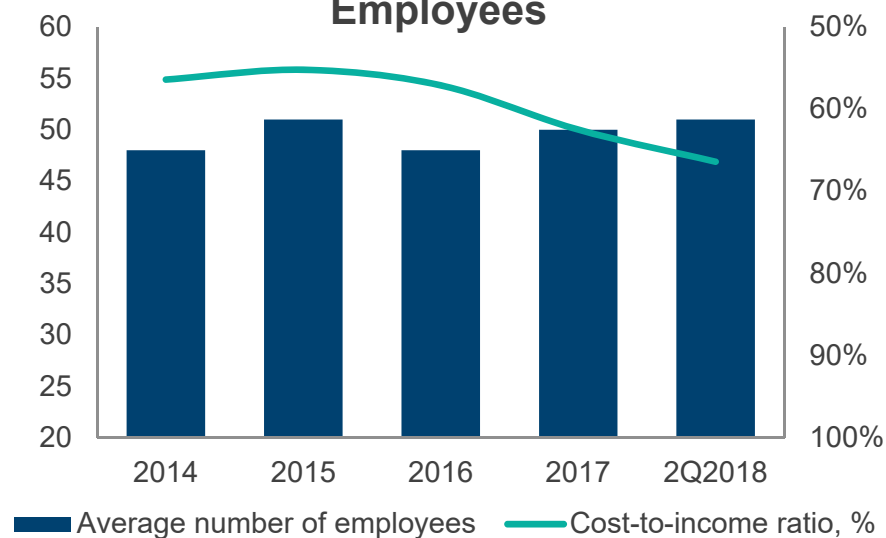


- Net interest income continued to grow to EUR 5.8 million (EUR 4.0 million) due to loan portfolio growth and lower funding costs.
- Operating profit was EUR 3.0 million (EUR 3.1 million for January–June 2017)
- Cost-to-income ratio 66% (65%)

**Profitability**



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



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# Hypo's Loan Book

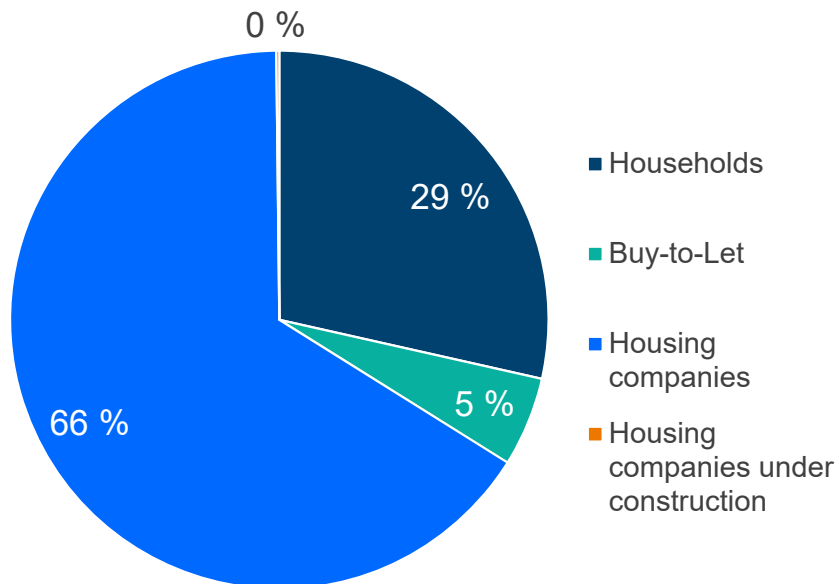


# Loan Book Overview

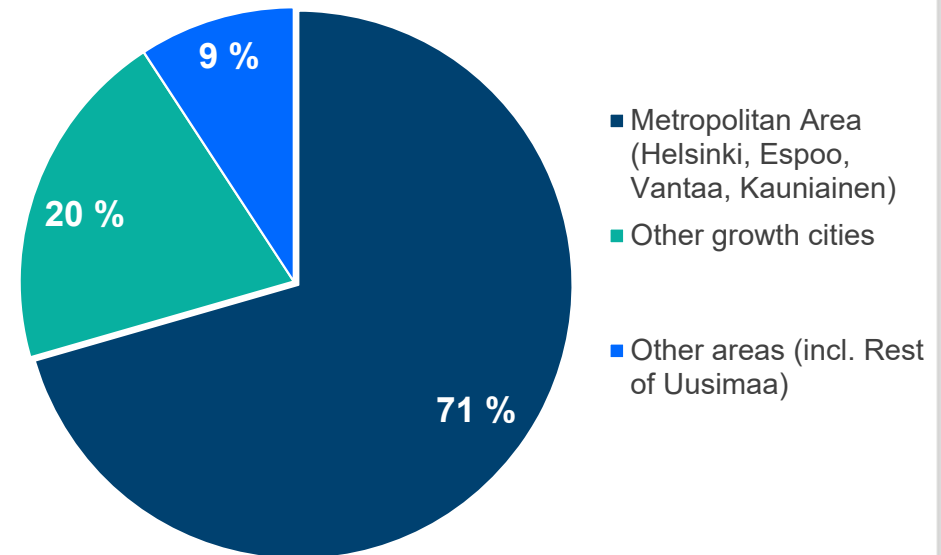


- Mortgage loans secured by residential property
- Collateral requirement is set in the Finnish Act on Mortgage Societies
- Two main customer groups
  1. Households: home mortgage, buy-to-let
  2. Housing companies: renovation loans, construction phase loans

**Lending by Customer Type**



**Loan Book by Customer Domicile**

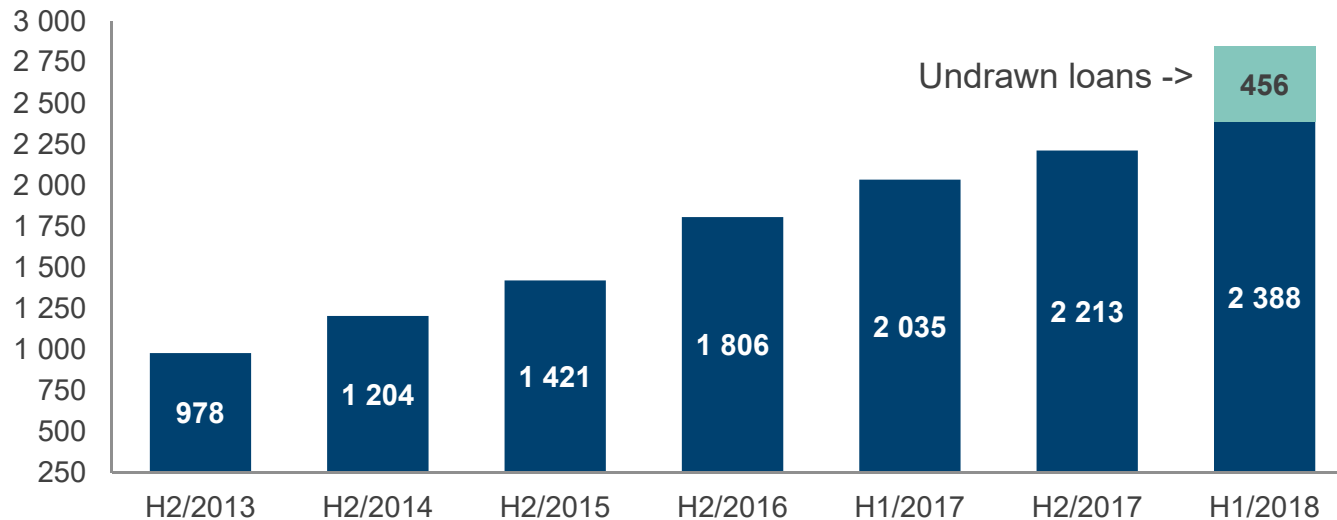




# Loan Book Growing Steadily

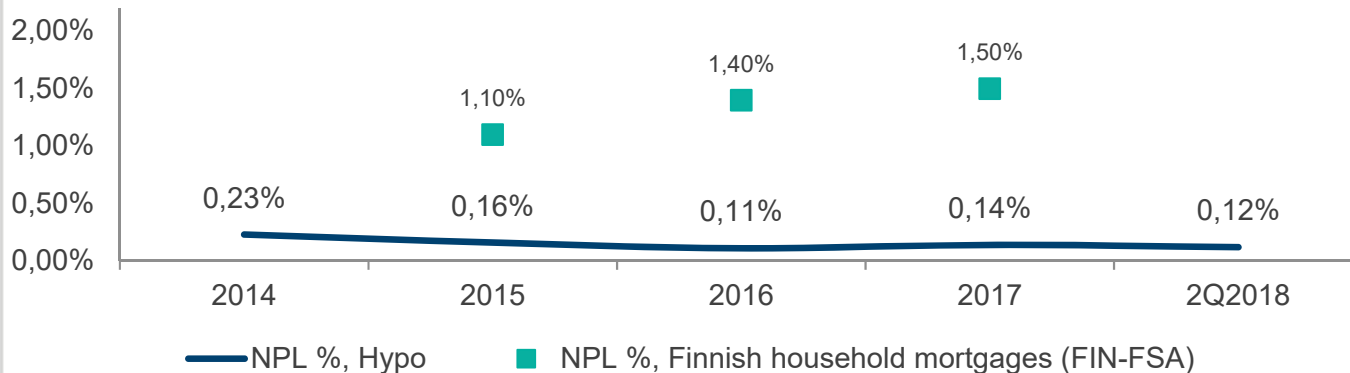


Hypo Loan Book Total, m€



- Hypo's loan book grew to EUR 2 388 million with annual growth of almost 20%
- Currently EUR 456 million undrawn loans
- 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 remained very low at 0.12% of the total loans
- The quality of the loan book well above the Finnish household mortgage average NPLs.

Non-performing Loans (%)

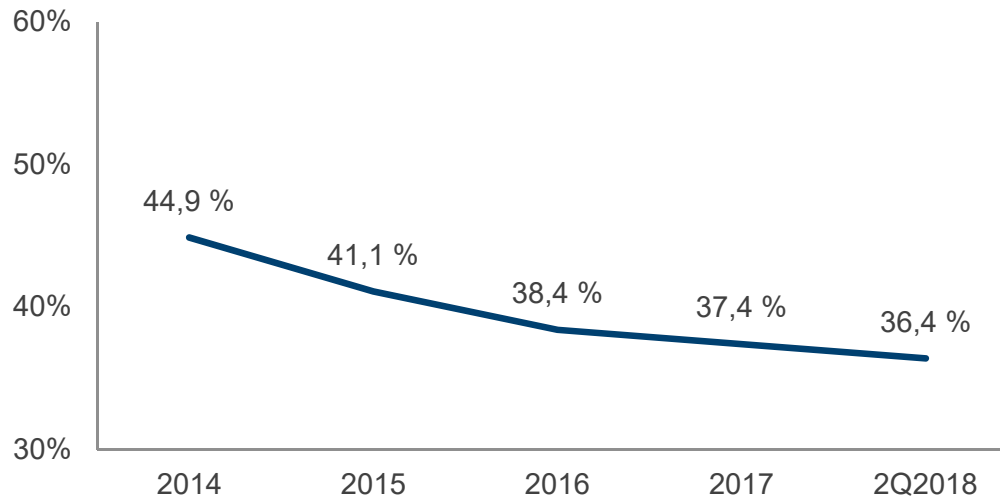


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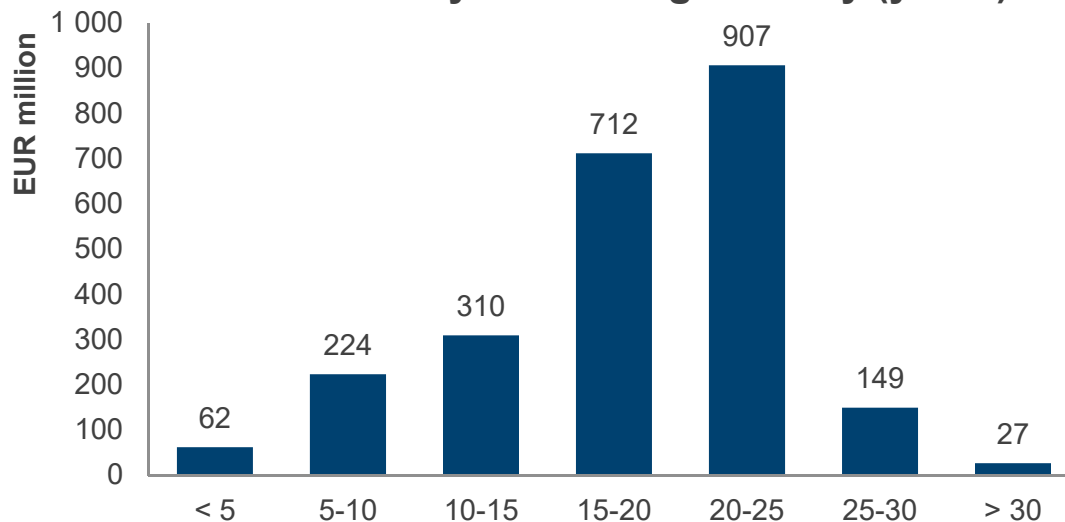
# Loan Book Quality Excellent



## Hypo Loan Book Average LTV



## Loan Book by Remaining Maturity (years)



- Hypo's loan portfolio is entirely secured by residential property
- The average LTV (loan-to-value) stable at 36.4%
- Around 98% of the loans are amortizing and 2% bullets
- >90% of loan book is risk weighted at 35% or lower
- The average maturity of a loan at the time of withdrawal is 17 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



- Covered bond program inaugurated in 2016
  - Issuer is the group parent, no separate entity
  - Larger issues (>250 million) LCR level 2A eligible
- Smaller sized senior unsecured issuance is expected to continue
- All Hypo's bonds are
  - listed on the NASDAQ OMX Helsinki Oy trading list
  - issued under Finnish legislation and Domestic programs
- 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 30.6.2018 (nominal amount issued)

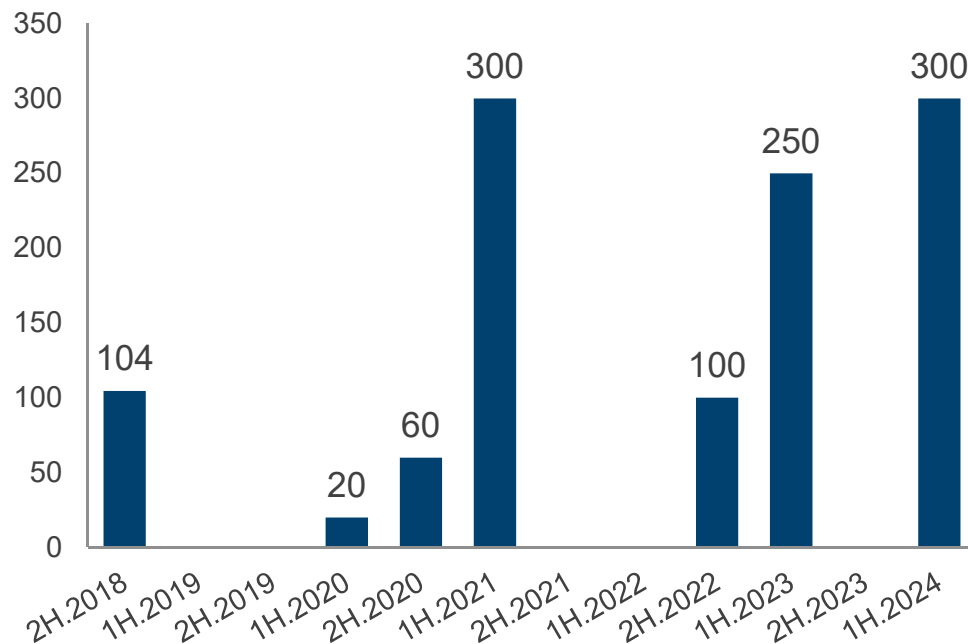
ISIN	Issue Date	Maturity Date	Type	Nominal Issued (m€)	Coupon / pricing
FI4000186614	4.12.2015	4.12.2018	Senior Unsecured	100	FRN 6M +0.90
FI4000206966	10.5.2016	10.5.2021	Covered	250	Fixed +0.25 (MS +22)
FI4000206966 (tap)	27.9.2016	10.5.2021	Covered	50	Fixed +0.25 (MS +10)
FI4000232855	7.12.2016	7.12.2022	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)
FI4000315841	24.4.2018	24.4.2023	Covered	250	Fixed +0,375 (MS +6)

# Diversified Funding Profile

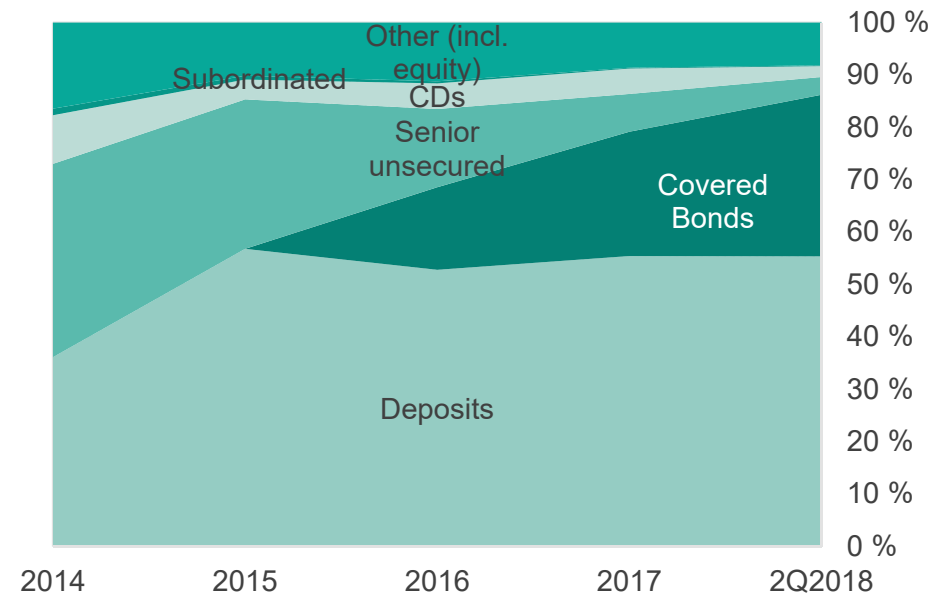


- Deposits through the AsuntoHypoPankki subsidiary form currently ~55% of total funding
- Covered bonds currently ~30% of total funding
- All outstanding senior unsecured notes (~3%) mature during 2018
  - Form and amount of future unsecured bonds depend on the pending MREL decision
- Domestic CD program support short term funding needs

## Wholesale Funding Maturity Profile



## Funding Structure



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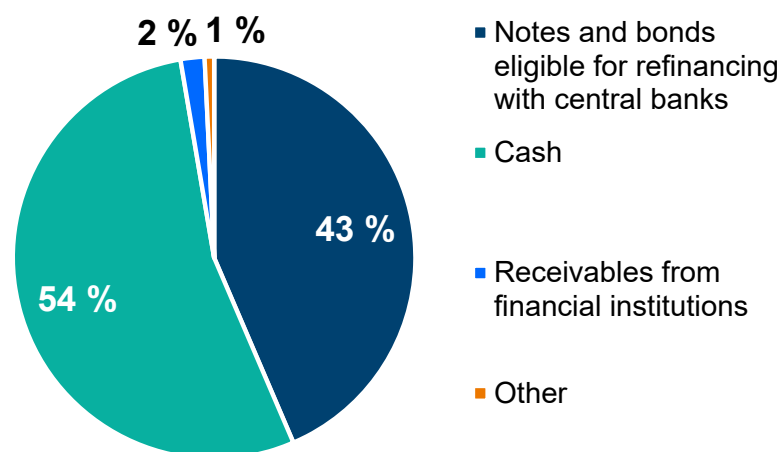
# Solid Liquidity Position



## Liquidity portfolio EUR 492.8 million as of 30.6.2018

- Equaling 16.1% of total assets
- Conservative investment policy
  - 95.5% 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 liquidity
- LCR 169% (148% ye2017)
- Liquidity covers maturing wholesale funding for over 24 months

### Liquidity Portfolio Composition



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# Outlook for 2018



# Future Outlook



*“Finnish economy and employment will grow in 2018, which will be reflected positively in the housing markets and in housing loan demand. Urbanization will continue and support the housing market and loan demand in growth cities, while areas with declining population will suffer and polarization will deepen.*

*Following the increase in loan portfolio and net interest income, Hypo Group’s core business’ share of the profit for the financial period keeps growing. The operating profit for 2018 is expected to reach at least the 2017 level. Hypo concentrates on its core business operations, whereupon risk level of lending will remain moderate.”*



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