

**Debt Investor Presentation** 



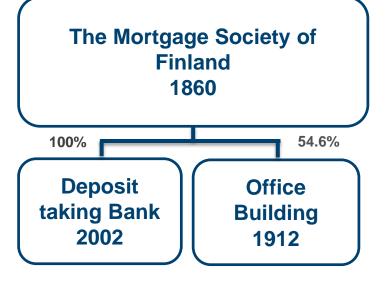


**Secure Way for Better Living** 

## **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 0.08%)
- 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.)



Pension Fund A + M Departments

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



Anchor Rating for Finnish Commercial Banks	а-
<ul> <li>Hypo business position</li> <li>Small-sized bank, concentrated niche market position</li> <li>Conservative approach to risks and a very low risk appetite</li> </ul>	-2
<ul> <li>2. Hypo capital and earnings</li> <li>Very strong risk-adjusted capitalization</li> <li>Strong asset quality and exceptional loan loss track record in the past decades.</li> <li>Mutual business model: retained earnings fully used for capital build-up</li> </ul>	+2
<ul> <li>Hypo risk position</li> <li>Moderate risk position due to concentration in risks</li> <li>Partly mitigated by conservative underwriting standards and an exceptional loan loss track record</li> </ul>	-1 s
<ul> <li>4. Hypo liquidity and funding</li> <li>Matched funding profile but elevated dependence on wholesale funding</li> <li>Increased share of covered bonds leads to a more balanced funding profile</li> <li>Elevated loan-to-deposit ratio</li> </ul>	-1
Hypo Credit Rating	BBB (st.)

Hypo Leading the Debate on **Finnish Mortgage Market** 



Hypo: Suurin vastuu asuntokuplasta on vuokranantajilla ja heidän rahoittajillaan



Hypo: Aktiivimalli tuo tilastoihin valetyöllisiä

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

Asiantuntija: Suomi jakautumassa kahteen

Työttömyysturvan aktiivimalli 12.1.2018 klo 00:01

Hypo: Kasvukeskuksissa asuntojen vasta alkanut - syrjäseuduilla pahin

**BURNLY BRIDGIS** 

Hypo: Asuntojen hinnat kasvukeskuksissa, muu

synkempää – kasvukes" Asuntolaina ei ole enää ulkopuolella kehitys "miinusmerkkistä"

Yli puolet ensiasunnoista ostetaan pääkaupunk

Tampereelta eli niin kutsutusta kasvukolmiosta

Asuntojen hinnat 17.11.2017 klo 06:00

AŚP remontoitava

liikevoitto 55 vai 556 miljoonaa?

Hypoteekkiyhdis-

tyksen toimitus-

johtaja Ari Pau-

tiaana.

na ehdottaa, että

säästämisen voi-

laidoille asuntoja etsimään.

Hypon Pauna:

kahvipaketti vaan mäyräkoira, ja kankkunen uhkaa"



Taloyhtiöiden maineen pilaaminen harmittaa asuntorahoitusmiestä



non transferration Art.

Paunas ottos päähän vii-

TS-ikriestelmää rittisi uudistaa. dakel?" Panna eshtii

no somunza talovbršan takoudesta ta muna entvaeni mbolitalita kaspankita rmaelmoista sääntelyö. Nonden on stuppoly, Mi

"Robus hinta sousee kalkilla asuetos/joittal ruspell klivostotii, makuukykylset taimijat adotta

si aloittaa 15-vuo-Talletusten tules of a 150-3004 Mahdallista saada valtion korlodu-Antti Lehmusvirta anni lehmosvina@kruppalehtiå Asuntolainojen omarahoitusosuu kosisistämisen liäkkeeksi ası ntodet ovat karanneet monen ulottu-

ASP-säästäminen

18-30-vuoties henkilö, joka ei di

tia tai enempää asunnosta. Myös awlopuolisot voivat ryhtyä yhdesä

Tillle sakitetaan vahintaan 10 po-

senttia asunnon tai tai lettajan on istukseen tulevan osuuden hinnassa.

ASP-säästätilin voi avata

säästöpalkkiojäsjestelmän (ASP) mattomiin. Esimerkiksi Helsingisså kymppitonnin säästöillä on läh-Hyppy omistosasumispe ulle dettävä pääkaupunkiseudun äärivastii joko hyvin pitkäjänteistä ennakkosäästämistä tai vanheerpien Hypoteekkiyhdistyksen toimiturjohtaja Ari Pauna tarjoza enrsak-

apua, Tämä on l ksot ASP-säistän sio on kasvanut 1 den sikana reipp "Minua harm telmiä olen aja alkalsemmin omistanut 50 prosentelisi monin kel

> NYT Salama. – Vaikka ymmärrän Fivan toimia, toivoisin täsmätoimia. Oikeampi ja tehokkaampi osoite kiris yuzta alisi u oman kodin ostajien lainakaton sijasta asuntosijoittajat ja rs-lainat, Hypon toimitusjohtaja maan nykytii "Asuntom neet merkitt ulkaistu: 19.3. 8:05

spenen vuod tämisen ala yuosikymo seluz, ent

f Jaa

asiakkaille.

sitä ennemmin sijoitusasuntolainoille kuin tavallisille laina-

Velkapelko heräsi

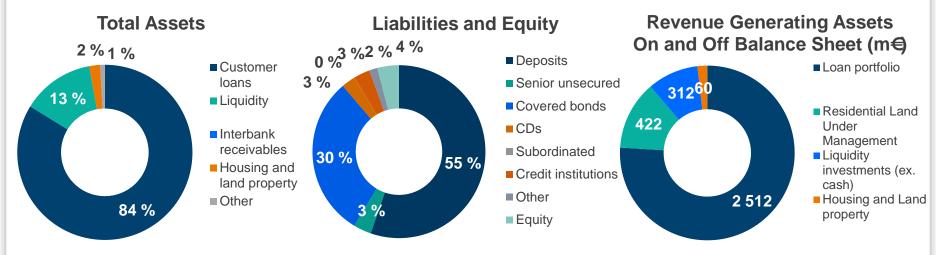
taminen Finanssivalvonta saattaa tänään kiristää asuntolainojen lainal នាំben,ថ Hypon Ari Pauna ei ihmettelisi, jos lainakatto kiristyisi, mutta

### **Financial Results**

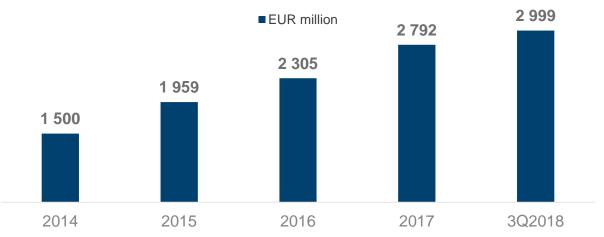


## **Strong Balance Sheet**







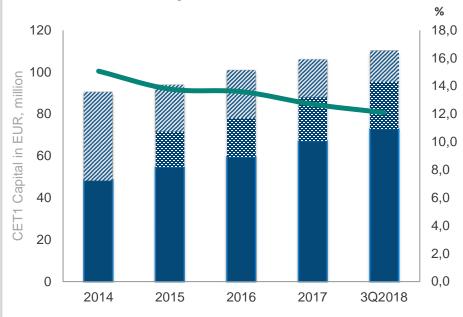


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# Solid Capital Basel III Standard Approach







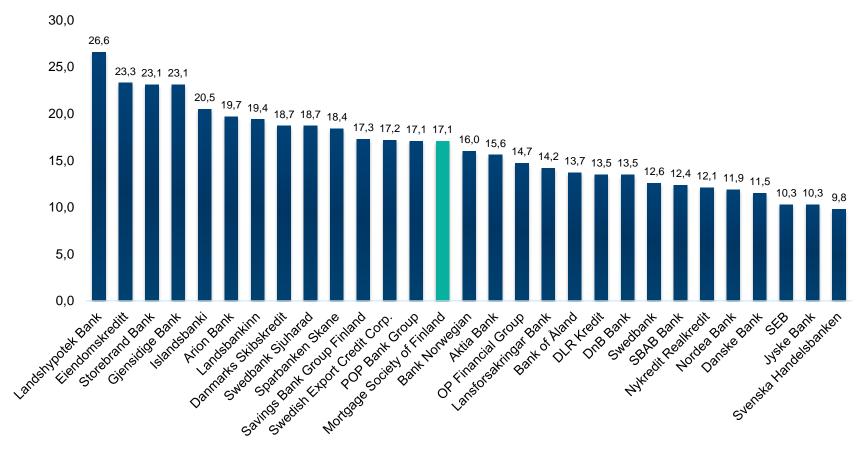
- Surplus of own funds, m€
- Capital conservation buffer, m€
- Regulatory Total Capital Reguirement, m€
- CET1. %

- Mutual company: all profits retained and added to the core capital
- Common Equity Tier 1 12.1%
- S&P's Risk Adjusted Capital 16.2% on 30.6.2018
  - Markedly higher than Finnish peers applying internal methods
- EUR 14.9 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 6.6 million of surplus in Pension Fund
  - Inclusion into CET1 would raise the ratio to 13.2%
- Basel III standardized approach risk weights
  - Lending with residential collateral: 35% risk weight
  - Housing and land investments: 100% risk weight

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



#### S&P's Nordic RAC Ratios 31.12.2017



## **Group Income Statement**



(EUR 1 000)	3Q2018	3Q2017	2017	2016
Net Interest Income	8 980	6 280	8 991	5 386
Net Fee and Commission Income	2 909	2 690	3 525	4 439
Total Other Income	2 376	4 048	5 190	7 924
Total expenses	- 8 313	- 8 109	-11 055	-10 403
Operating Profit	5 952	4 909	6 651	7 347

- Net Interest Income continued to grow to EUR 9.0 million (EUR 6.3 million for January-September 2017) due to loan portfolio growth and lower funding costs.
- Hypo Group's operating profit was EUR 6.0 million (EUR 4.9 million).
- Net Fee and Commission Income totaled EUR 2.9 million (2.7 million).
- Total other income (incl. treasury operations and housing and residential land) amounted to EUR 2.4 million (EUR 4.0 million).
- Total expenses increased to EUR 8.3 million (8.1 million).

## **Group Key Financial Figures**

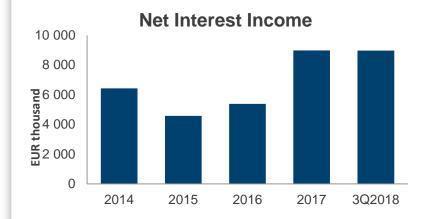


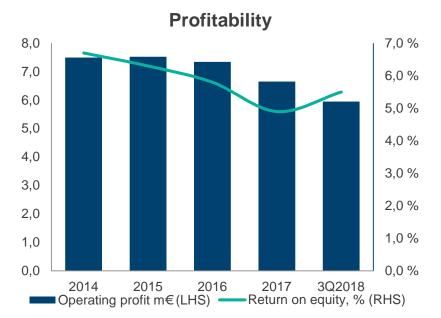
	3Q2018	3Q2017	2017	2016
Return on Equity (%)	5.5	4.9	4.9	5.8
Common Equity Tier 1 ratio (%)	12.1	13.0	12.7	13.6
Cost-to-income ratio (%)	58.1	62.4	62.5	57.1
Non-performing assets (%)	0.08	0.13	0.14	0.11
Loan-to-value ratio (%)	36.0	39.0	37.4	38.4
Loans-to-deposits (%)	151.5	162.4	143.6	150.2
Loan portfolio total (m€)	2 512	2 130	2 213	1 806
Balance sheet total (m€)	2 999	2 640	2 792	2 305

- The contribution to the Financial Stability Authority, recognized in full during the first half year, increased total costs despite the cut of operating costs by nearly 3% compared to the previous year.
- Total assets increased to EUR 3.0 billion and loan portfolio grew to EUR 2.5 billion.
- CET1 ratio decreased to 12.1% and the amount of equity increased to EUR 120.7 million
- Group's financial position remained stable throughout the period

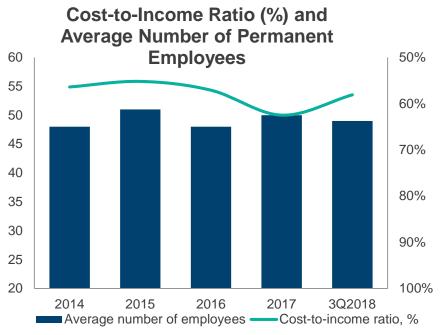
## Net Interest Income Increases Despite Low Interest Rate Environment







- Net interest income continued to grow to EUR 9.0 million (EUR 6.3 million) due to loan portfolio growth and lower funding costs.
- Operating profit was EUR 6.0 million (EUR 4.9 million for January–September 2017)
- Cost-to-income ratio 58.1 % (62.4 %)



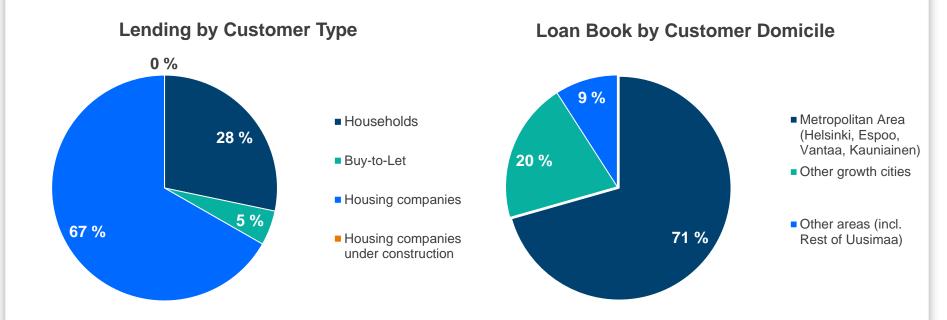
## Hypo's Loan Book



### **Loan Book Overview**

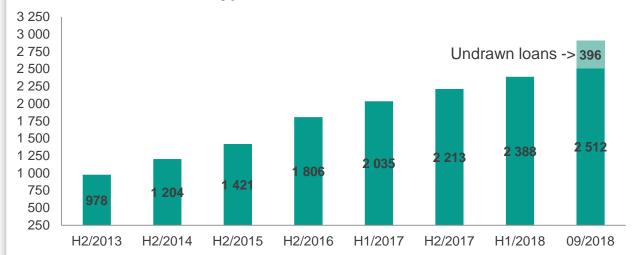
HYPO

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



## **Loan Book Growing Steadily**

### Hypo Loan Book Total, m€



### Non-performing Loans (%)





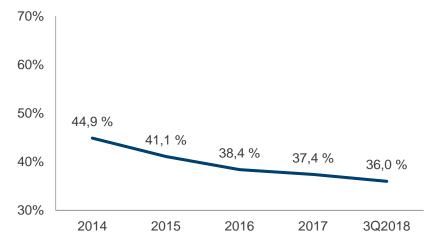
- Hypo's loan book grew to EUR 2 512 million with annual growth of almost 20%
- Currently EUR 396 million undrawn loans
- All lending is against residential collateral
- Only EUR denominated lending
- All collateral is located in Finland
- Strategic concentration in the Helsinki Metropolitan Area and other specified growth areas
- Non-performing loans remained very low at 0.08% of total loans
- The quality of the loan book well above the Finnish household mortgage average NPLs.

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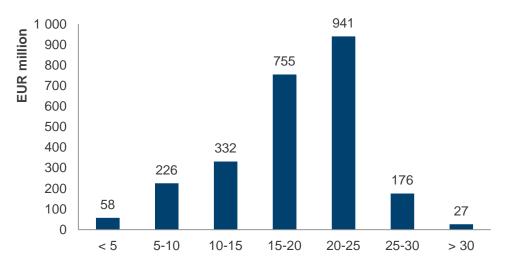
## **Loan Book Quality Excellent**

HYPO

### 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 36.0%
- Around 99% of the loans are amortizing and 1% 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

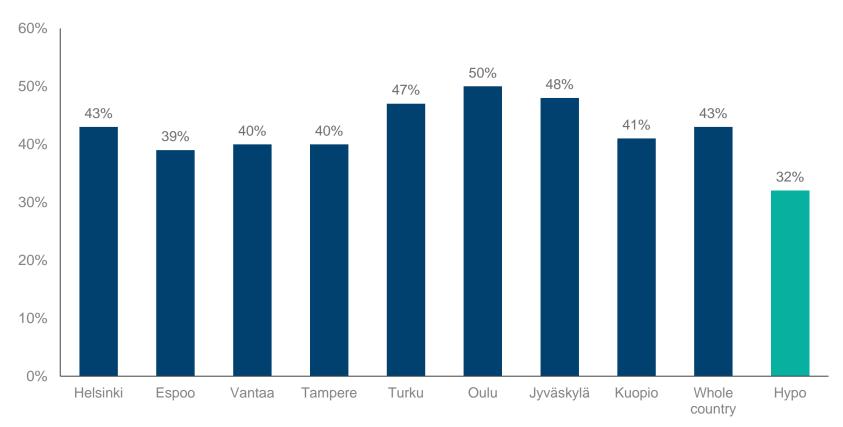
# Housing Investor Exposure in Hypo's Loan Book



- FIN FSA has given a recommendation to analyse the ownership structure in housing company lending more closely
  - Closer analysis of housing company ownership granularity and investor exposure at origination
  - Monitoring changes in ownership structure during the life span of the loan
- Weighted average investor exposure in Hypo's housing company loan book is 41.7% (concervative method of calculation: number of apartments owned by non-residents per total number of apartments, and weighted by the amount of loan granted to the housing company)
  - Weighted average LTV of housing company loans in Hypo loan book is 23.9%
- In addition, 4.98% of Hypo's total loan book has been granted directly to investment purposes
  - Average current maturity of an investor loan 14.5 years
  - Average current size of an investor loan 165 500 euros
  - Loan to value in investor loans typically 50-70%
  - Investor exposure in new sales in 2018 1%
  - No investor borrowers with poor internal credit class
- Total housing investor exposure in Hypo's loan book is max 32 %
- Goal well below 30% by end 2019

## **Housing Investor Exposure in Finland**





Source: Hypo, Statistics Finland

## **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
- 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 30.9.2018 (nominal amount issued)

ISIN	Issue Date	Maturity Date	Туре	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**

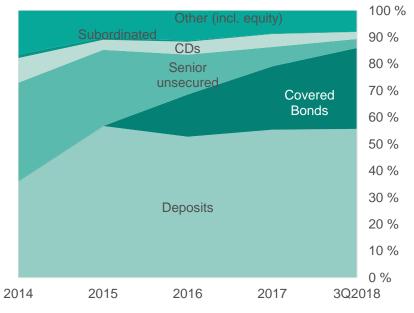


- Deposits through the AsuntoHypoPankki subsidiary form currently ~55% of total funding
- Covered bonds currently ~30% of total funding
- All outstanding senior unsecured notes (~3%) mature during 2018
- Domestic CD program support short term funding needs

### **Wholesale Funding Maturity Profile**

### 350 300 300 250 250 200 150 104 100 50 20 21,20<sup>18</sup>,20<sup>19</sup>,20<sup>19</sup>,20<sup>20</sup>,20<sup>20</sup>,20<sup>21</sup>,20<sup>21</sup>,20<sup>21</sup>,20<sup>21</sup>,20<sup>22</sup>,20<sup>23</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20<sup>24</sup>,20

### **Funding Structure**



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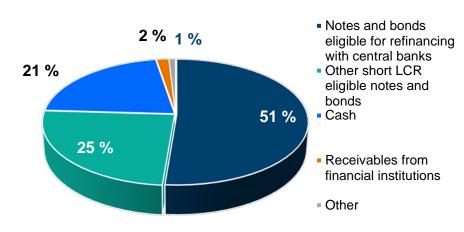
## **Solid Liquidity Position**



### Liquidity portfolio EUR 411.3 million as of 30.9.2018

- Equaling 13.7% of total assets
- Conservative investment policy
  - 96.8% of debt securities invested in at least 'AA-' rated instruments
  - 67.5% of debt securities are ECB repo eligible
- Only EUR denominated exposure
- Hypo's domestic MTN and CD programs support liquidity
- LCR 118.9% (148% ye2017)
- Liquidity covers wholesale funding cash flows for the following 31 months.

### **Liquidity Portfolio**



SECURE WAY FOR BETTER LIVING.

### **Outlook for 2018**



### **Future Outlook**



"Finnish economy and employment will grow moderately in the next 12 months, 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. Newbuilding will increase the importance of the largest cities.

Hypo Group concentrates on its core business operations, whereupon risk level of lending will remain moderate. 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."



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

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