

# Hypo Investor Update Financial Year 2018

Debt Investor Presentation

*Unaudited release*



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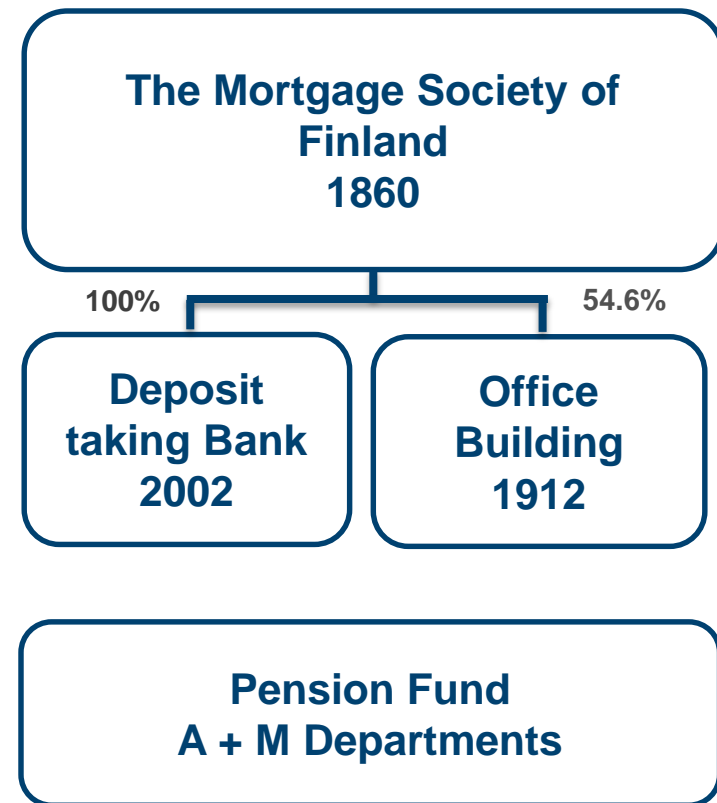


**Secure Way for Better Living**

# 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 0.07%)
- Established and regular issuer in Finland
- Total assets EUR 3.1 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
- Conservative approach to risks and a very low risk appetite

### 2. Hypo capital and earnings

+2

- Very strong risk-adjusted capitalization
- Strong asset quality and exceptional loan loss track record in the past decades.
- 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 and an exceptional loan loss track record

### 4. Hypo liquidity and funding

-1

- Matched funding profile but elevated dependence on wholesale funding
- Increased share of covered bonds leads to a more balanced funding profile
- Elevated loan-to-deposit ratio

## Hypo Credit Rating

**BBB (st.)**





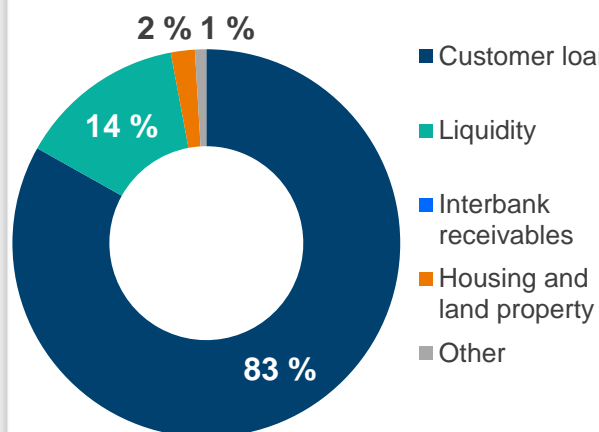
# Financial Results



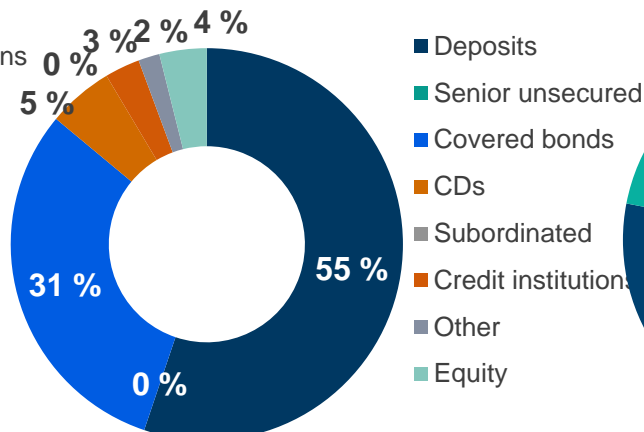
# Strong Balance Sheet



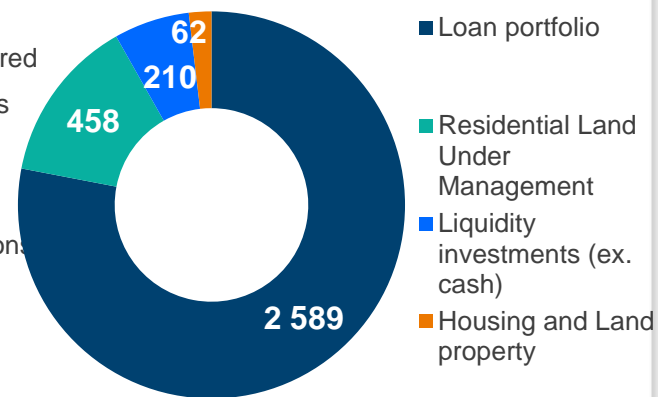
## Total Assets



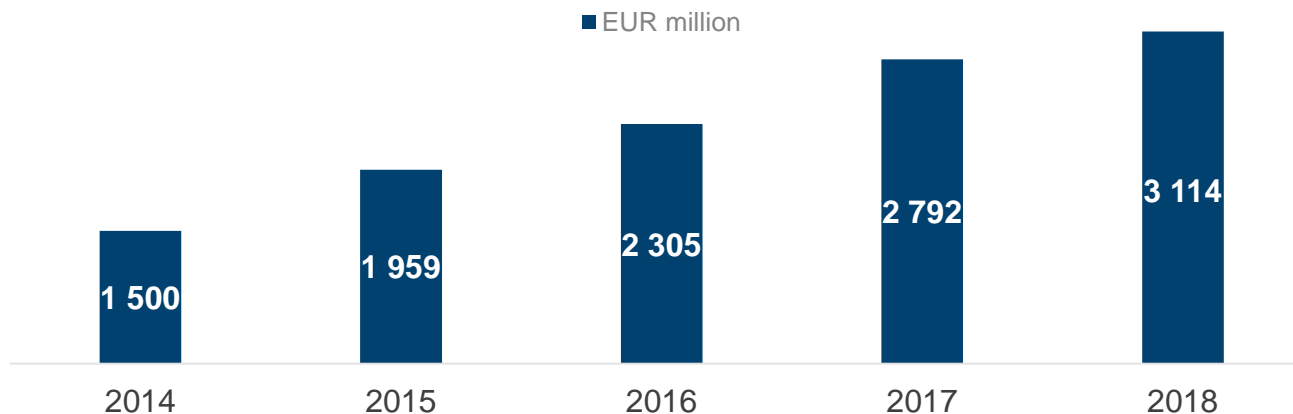
## Liabilities and Equity



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



## Hypo Group Balance Sheet Total

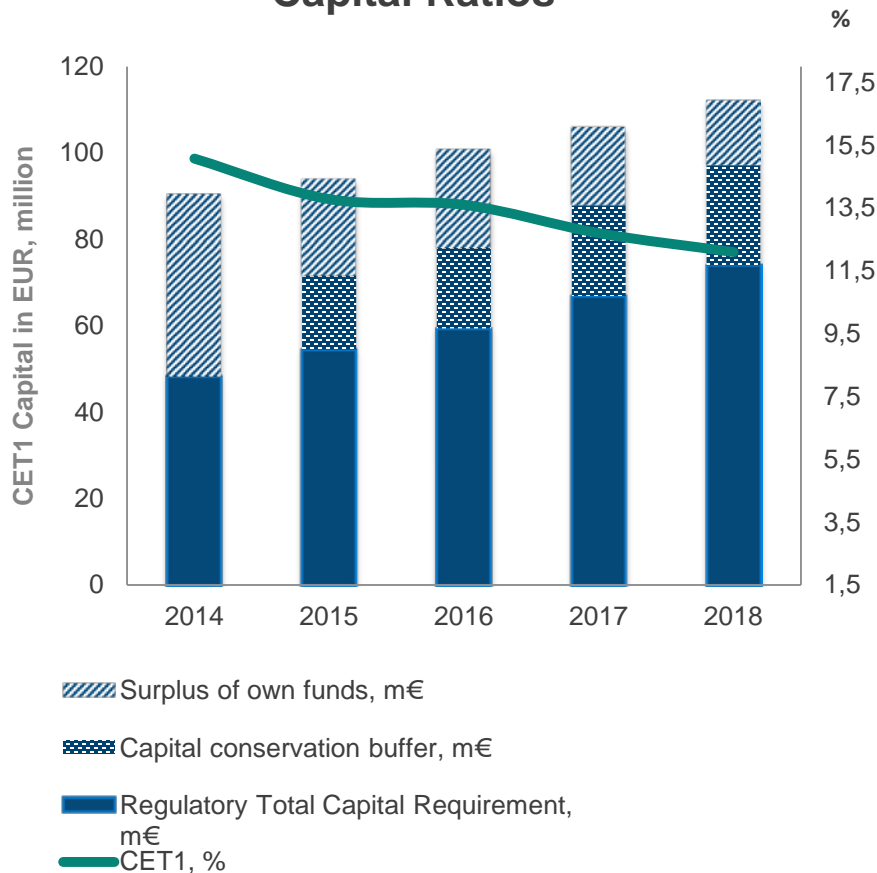


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# Solid Capital Basel III Standard Approach



**Capital Ratios**



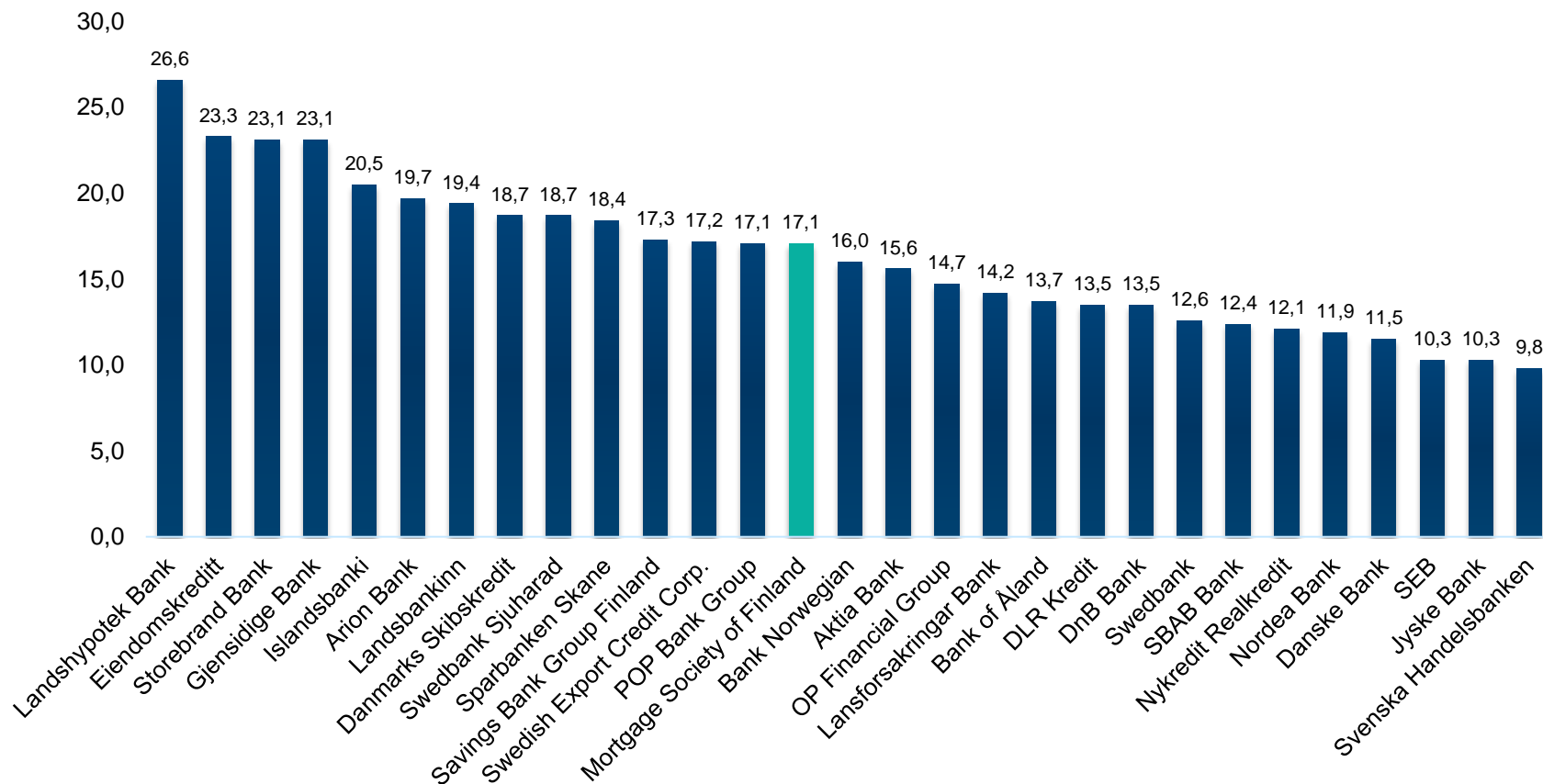
- Mutual company: all profits retained and added to the core capital
- Common Equity Tier 1 12.1%
- S&P's Risk Adjusted Capital 16.2% on 30.6.2018
  - Markedly higher than Finnish peers applying internal methods
- EUR 15,2 million of excess capital after
  - 8.0% Regulatory TC requirement
  - 2.5% Capital Conservation Buffer
- EUR 5.1 million of hidden reserves in housing property (not marked-to-market) and EUR 5.3 million of surplus in Pension Fund
  - Inclusion into CET1 would raise the ratio to 13.0%
- 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



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# Group Income Statement



(EUR 1 000)	4Q2018	4Q2017	2018	2017
<b>Net Interest Income</b>	3 350	2 712	12 331	8 991
<b>Net Fee and Commission Income</b>	886	834	3 795	3 525
<b>Total Other Income</b>	-278	1 142	2 097	5 190
<b>Total expenses</b>	- 2 745	- 2 946	- 11 058	- 11 055
<b>Operating Profit</b>	<b>1 214</b>	<b>1 742</b>	<b>7 165</b>	<b>6 651</b>

- Net Interest Income continued to grow to EUR 12.3 million (EUR 9.0 million for January-December 2017) due to loan portfolio growth and lower funding costs.
- Hypo Group's operating profit was EUR 7.2 million (EUR 6.7 million).
- Net Fee and Commission Income totaled EUR 3.8 million (EUR 3.5 million).
- Total other income (incl. treasury operations and housing and residential land) amounted to EUR 2.1 million (EUR 5.2 million).
- Total expenses totaled EUR 11.1 million (EUR 11.1 million).

# Group Key Financial Figures



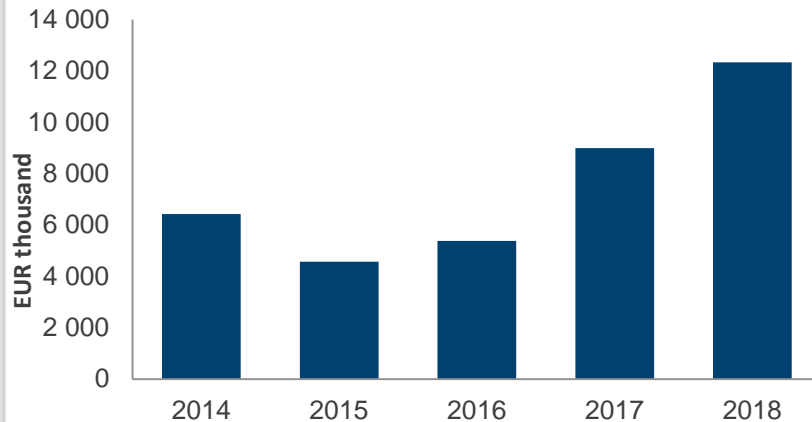
	4Q2018	4Q2017	2018	2017
<b>Return on Equity (%)</b>	3.5	5.0	5.0	4.9
<b>Common Equity Tier 1 ratio (%)</b>	12.1	12.7	12.1	12.7
<b>Cost-to-income ratio (%)</b>	69.4	62.6	60.6	62.5
<b>Non-performing assets (%)</b>	0.07	0.14	0.07	0.14
<b>Loan-to-value ratio (%)</b>	35.8	37.4	35.8	37.4
<b>Loans-to-deposits (%)</b>	150.7	143.6	150.7	143.6
<b>Loan portfolio total (m€)</b>	2 589	2 213	2 589	2 213
<b>Balance sheet total (m€)</b>	3 114	2 792	3 114	2 792

- 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 3.5 % compared to the previous year.
- Total assets increased to EUR 3.1 billion and loan portfolio grew to EUR 2.6 billion.
- CET1 ratio decreased to 12.1% and the amount of equity increased to EUR 121.4 million
- Group's financial position remained stable throughout the period

# Net Interest Income Increases Despite Low Interest Rate Environment

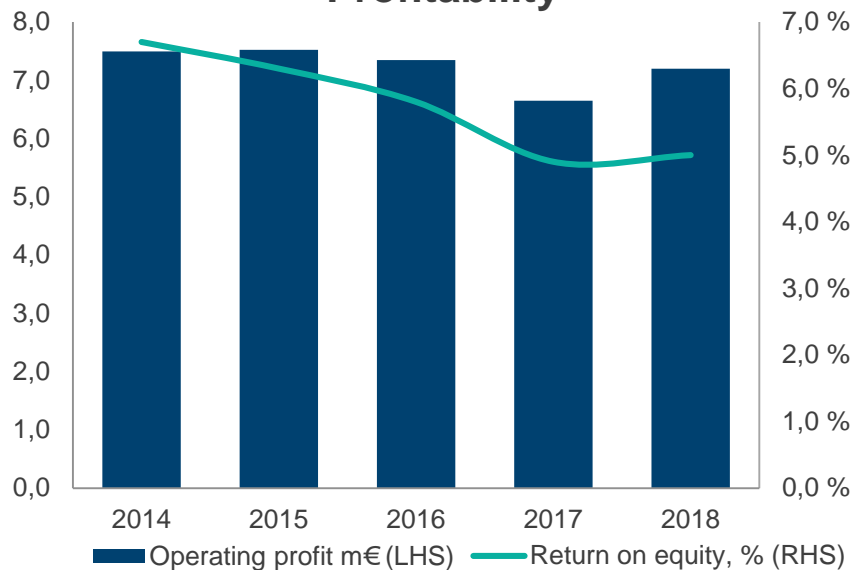


**Net Interest Income**

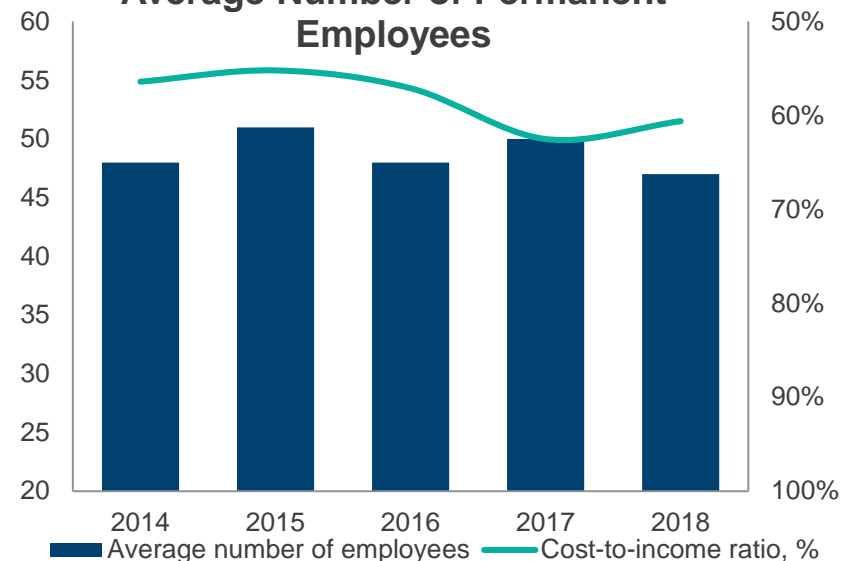


- Net interest income continued to grow to EUR 12.3 million (EUR 9.0 million) due to loan portfolio growth and lower funding costs.
- Operating profit was EUR 7.2 million (EUR 6.7 million for January–December 2017)
- Cost-to-income ratio 60.6 % (62.5 %)

**Profitability**



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



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# Hypo's Loan Book

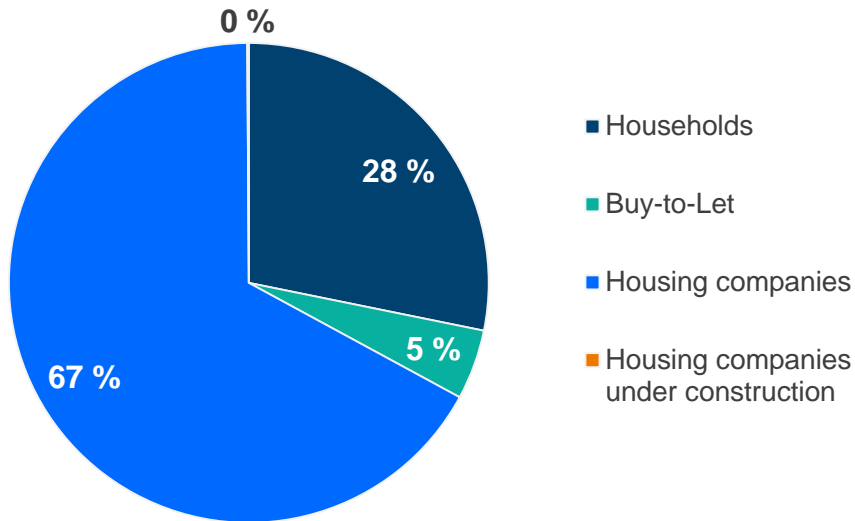


# Loan Book Overview

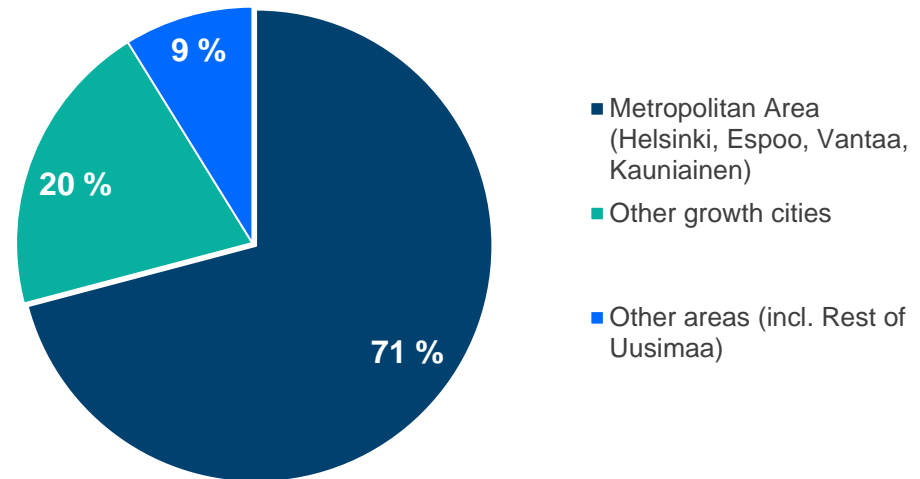


- Mortgage loans secured by residential property
- Collateral requirement is set in the Finnish Act on Mortgage Societies
- Two main customer groups
  1. Households: home mortgage, buy-to-let
  2. Housing companies: renovation loans, construction phase loans

## Lending by Customer Type



## Loan Book by Customer Domicile

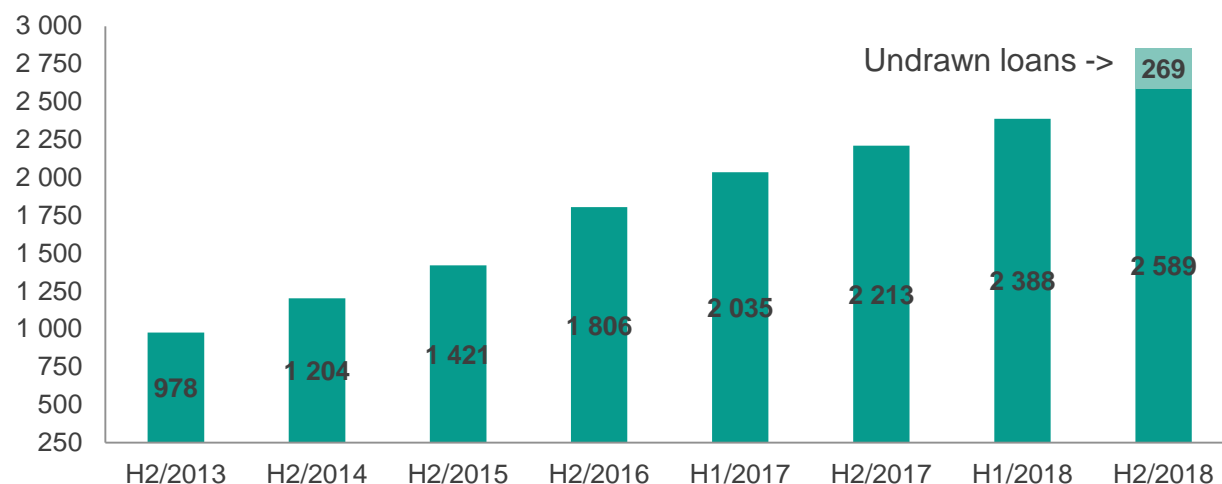


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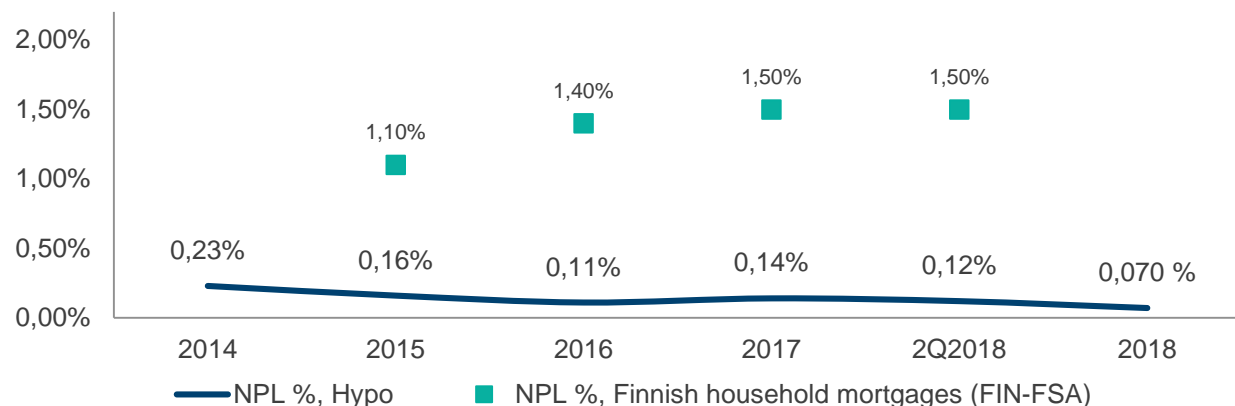


# Loan Book Growing Steadily

Hypo Loan Book Total, m€



Non-performing Loans (%)



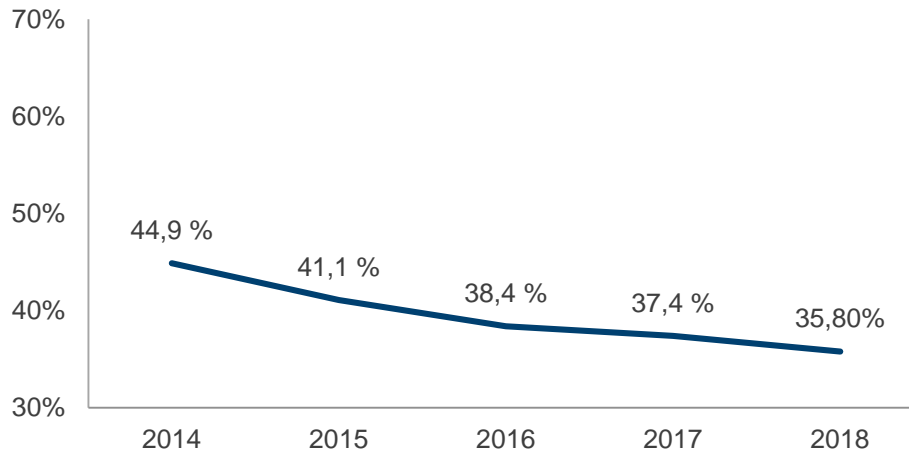
- Hypo's loan book grew to EUR 2 589 million with annual growth of almost 20%
- Currently EUR 269 million undrawn loans
- All lending is against residential collateral
- Only EUR denominated lending
- All collateral is located in Finland
- Strategic concentration in the Helsinki Metropolitan Area and other specified growth areas
- Non-performing loans remained very low at 0.07% of total loans
- The quality of the loan book well above the Finnish household mortgage average NPLs.

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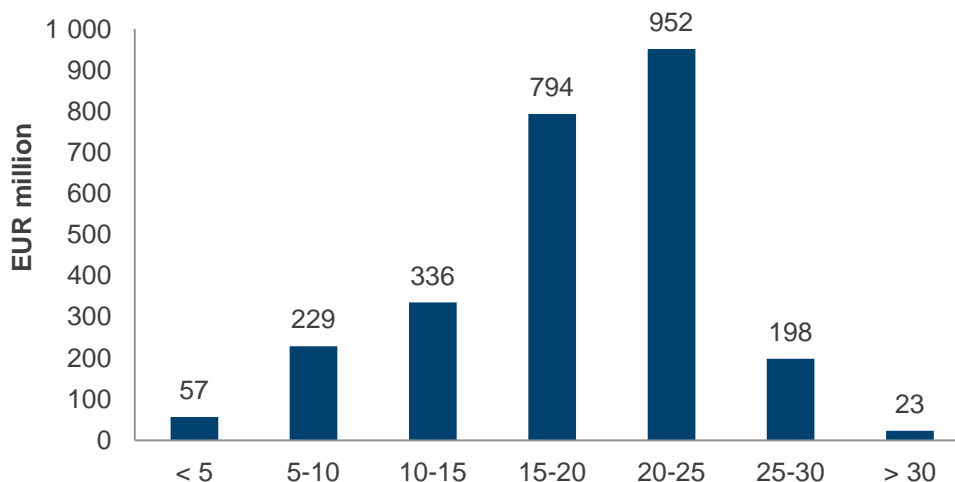
# Loan Book Quality Excellent



Hypo 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 35.8 %
- 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 18 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

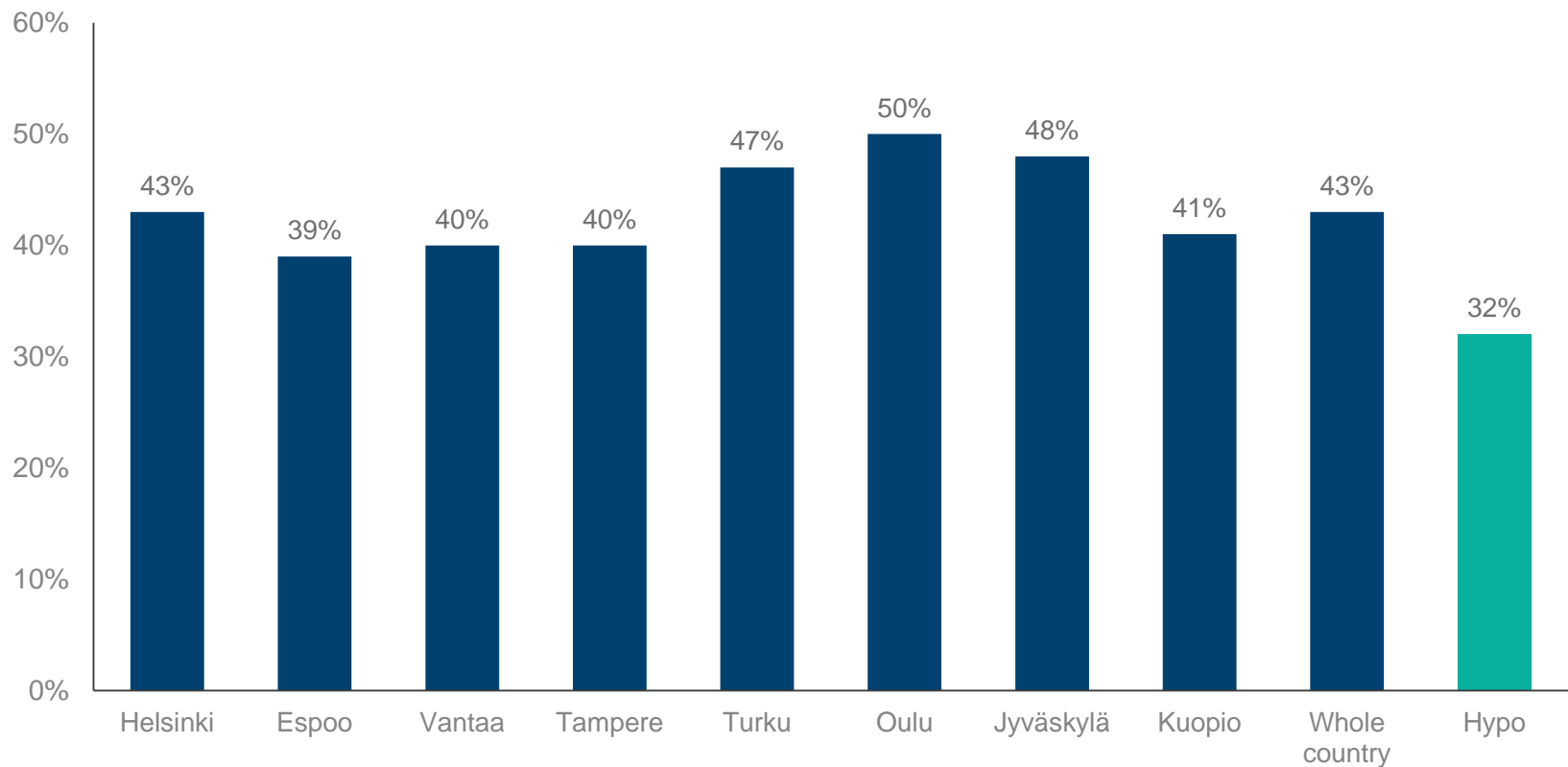
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# Housing Investor Exposure in Hypo's Loan Book



- 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% (conservative 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

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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
- 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 31.12.2018 (nominal amount issued)

ISIN	Issue Date	Maturity Date	Type	Nominal Issued (m€)	Coupon / pricing
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)
FI4000315841 (tap)	14.11.2018	24.4.2023	Covered	50	Fixed +0.375 (MS +9)

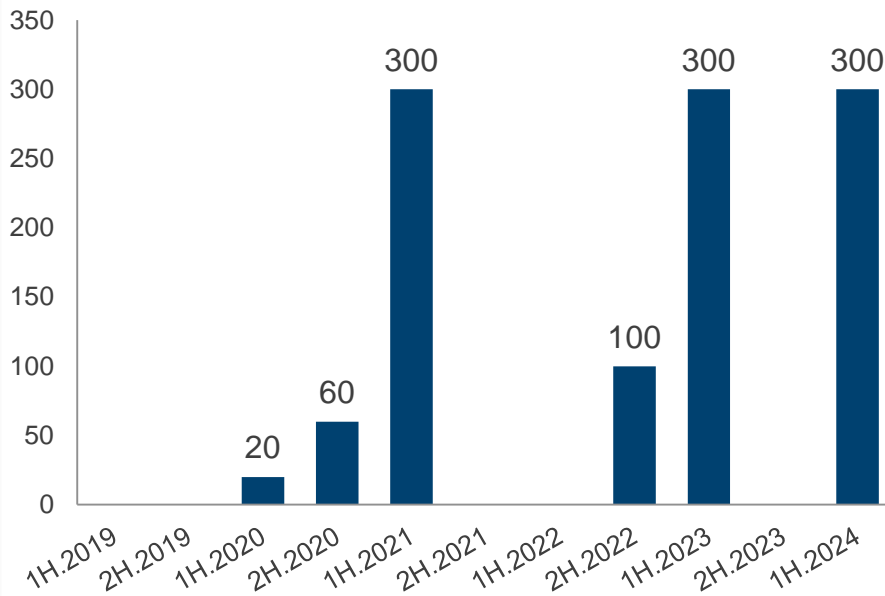


# Diversified Funding Profile

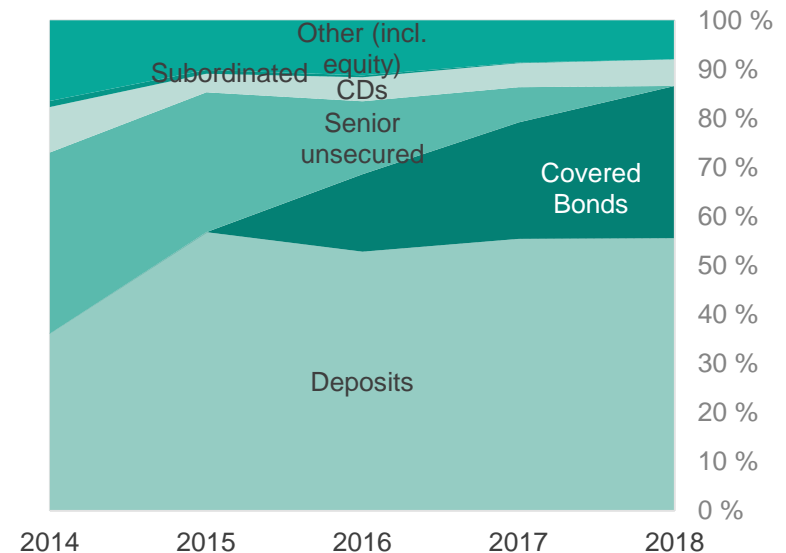


- Deposits through the AsuntoHypoPankki subsidiary form currently ~55% of total funding
- Covered bonds currently ~30% of total funding
- Domestic CD program supports short term funding needs

## Wholesale Funding Maturity Profile



## Funding Structure



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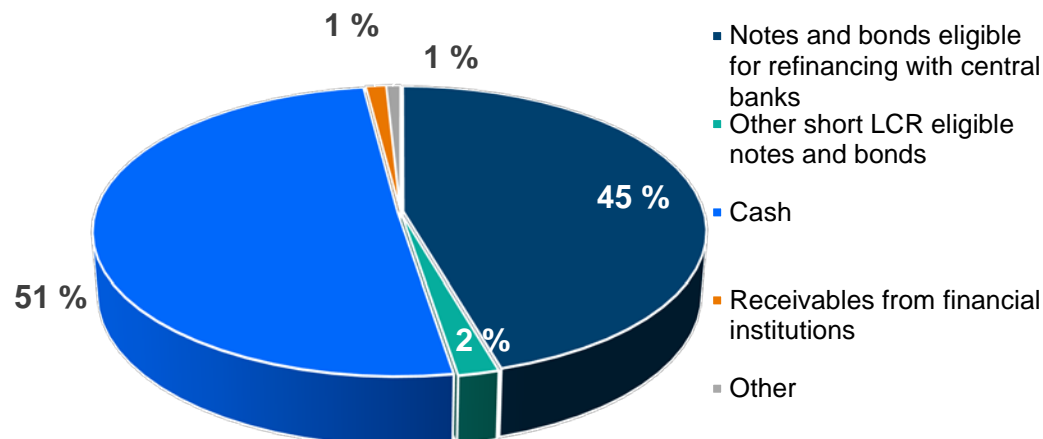
# Solid Liquidity Position



## Liquidity portfolio EUR 442.4 million as of 31.12.2018

- Equaling 14.2 % of total assets
- Conservative investment policy
  - 95.4 % of debt securities invested in at least 'AA-' rated instruments
  - 95.9 % of debt securities are ECB repo eligible
- Only EUR denominated exposure
- Hypo's domestic MTN and CD programs support liquidity
- LCR 122.6 % (147.6 % ye2017)
- Liquidity covers wholesale funding cash flows for the following 31 months.

Liquidity Portfolio



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# Outlook for 2019



# Future Outlook



*“Finnish economy grows at a slower pace but employment continues to improve in the next 12 months. Housing loan demand is also supported by low interest rates. 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 focuses on its core business and expects the share of profit made by it to continue to rise following the increase in loan portfolio and net interest income. Capital adequacy is expected to remain unchanged and the operating profit for 2019 is estimated to reach at least the 2018 level.”*



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