

# Hypo Investor Update 1Q2019

Debt Investor Presentation



Published on April 26, 2019





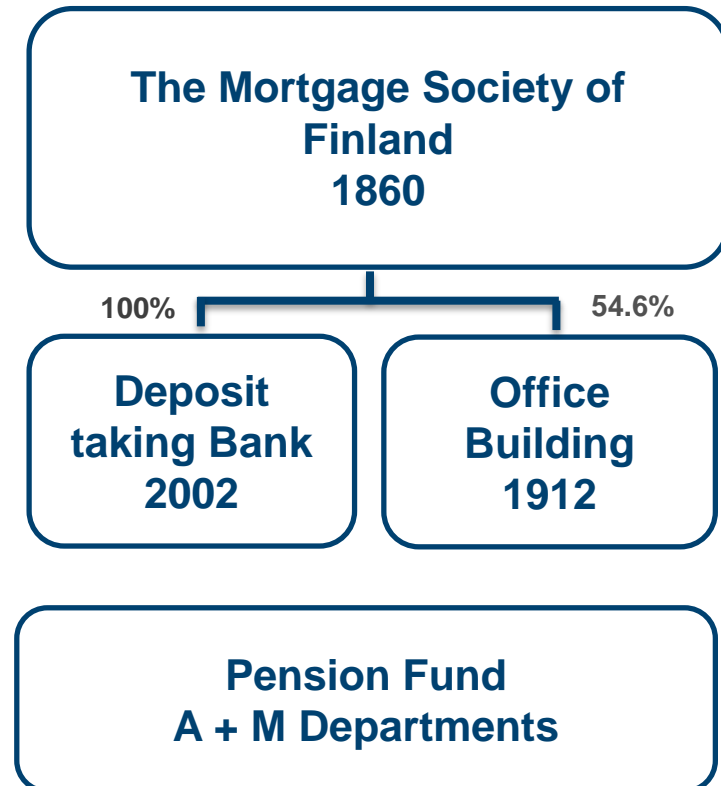
**Secure Way for Better Living**



# 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 0.09%)
- Established and regular issuer in Finland
- Total assets EUR 3.4 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
<ul style="list-style-type: none"><li>• Small-sized bank, concentrated niche market position</li><li>• Conservative approach to risks and a very low risk appetite</li></ul>		
2. Hypo capital and earnings		+2
<ul style="list-style-type: none"><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>		
3. Hypo risk position		-1
<ul style="list-style-type: none"><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>		
4. Hypo liquidity and funding		-1
<ul style="list-style-type: none"><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>		
Hypo Credit Rating		BBB (st.)

S&P Research Update 13.9.2018

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# Hypo Leading the Debate on Finnish Mortgage Market



Kauppalehti

KL NYT

Tärkeimmät uutiset ja terävimmät näkemykset nyt.

Uutiset Pörssi Yritykset Kotimaa Ulkomaa Talous

27.10.2019 klo 19:10

Uutiset

Areena

Urheilu

Sää

Kotimaa

Ulkomaa

Talous

Politiikka

Kulttuuri

Kolumnit

UUTISET

Tuoreimmat

Urheilu

Sää

Kotimaa

Ulkomaa

Talous

Politiikka

Kulttuuri

Kolumnit

## Hypoteekkiyhdistys: Asuntojen hinnat ovat alamaässä – Pian alkaa kaupungistumisen kolmas aalto

Ennusteen mukaan Suomessa on pian vain kolme aidosti kasvavaa kaupunkiseutua, kun tutuissakin kasvukeskuksissa väestö lähtee laskuun.

Kasvukeskukset 2.3.2019 klo 01:26 | päivitetty 2.3.2019 klo 01:28

## "miinusmerkkistä" -puolella kehitys

Yli puolet ensiasunnoista ostetaan pääkaupunkiseudut Tampereelta eli niin kutsutusta kasvukolmiosta.

Asuntojen hinnat 17.11.2017 klo 06:00

Tänään 8.37

LIFESTYLE

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

Antti Lehmusvirta arvioi lehmusvirta.kauppalehti.fi

Asuntolainojen ennakkoosuudet ovat karsaneet monien ulottumattomiin. Esimerkiksi Itebisinissä kymppileipien säästö on lähdevä pöytäkaupunkiseudun säästöille suostua etesimään. Hypoteekkiyhdistyksen toimintajohtaja Ari Paus tarjoo ensi-

"Asuntokulttuurin syntymisen pohulla suurin yksittäinen syy on kassa-riippa. Minua harmittaa, ettei jollain ole ajateltu säästämistä. Sitten minin kassan korjattava. NYT säästämisen voi aloittaa 15-vuotiaana. Pausen mielestä säästämisen voisi aloittaa 15-vuotiaana. Pausen mielestä säästämisen voisi aloittaa 15-vuotiaana. Pausen mielestä säästämisen voisi aloittaa 15-vuotiaana."

## Kiinteistölehti

UUTISET BLOGIT TALOYHTIO.NET PALVELUT TALOYHTIÖTAPAHTUMA KIINTEISTÖ

## Hypo: Ei taantunaa, vaan tasaisempaa kehitystä

© 28.1.2019 | Lähde: Hypo

## olaina ei ole enää kankkunen uhkaa"



-Vaikka ymmärrän Fivan toimia, toivoisin täsmätoimia oman kodin ostajien lainakaton sijasta asuntosiirtajaj-

OUSSANOMAT

OMX HELSINKI

10:34

UUTISET

PÖRSSI

YRITYKSET

Uutiset Talous

## Suomessa juuri nyt maailman edullisimmat asuntolainat – Selvitimme mistä se johtuu

Asuntoluottotuttamiseen erikoistuneen Hypon pääekonomisti Juhana Brotherus Suomen kasvukeskuksiin uskottaa laajalti Euroopassa. Tuoreen asuntomarkkinakatsauksen mukaan kaupungistumisen seuraava askel on kasvukolmiosta aseman korostuminen.

2.3.2019 09:36 - PÄIVITETTY 4.3.2019 08:34

## Taloyhtiöiden maineen pilaaminen harmittaa asuntorahoitusmiestä



KOLME KYSYMYSTÄ  
1. Miksi asuntorahoitusmiestä harmittaa taloyhtiöiden maineen pilaaminen? "Taloyhtiöiden maineen pilaaminen on asuntorahoitusmiestä harmittavaa, koska se vaikuttaa asuntorahoituksen kantaan. Asuntorahoitusmiestä harmittaa taloyhtiöiden maineen pilaaminen, koska se vaikuttaa asuntorahoituksen kantaan. Asuntorahoitusmiestä harmittaa taloyhtiöiden maineen pilaaminen, koska se vaikuttaa asuntorahoituksen kantaan."

Kauppalehti

## Hypo ennustaa asuntomarkkinoille kylmää kyytiä - Nämä kaupungit putoavat kasvukeskusten joukosta

2.3.2019 05:05 | päivitetty 2.3.2019 12:39

ASUMINEN ASUNTOJEN HINNAT

Twiittaa

a tänään kiristää tteksi, jos lainat suntolainoille kuin tavallisille laina-



# Financial Results

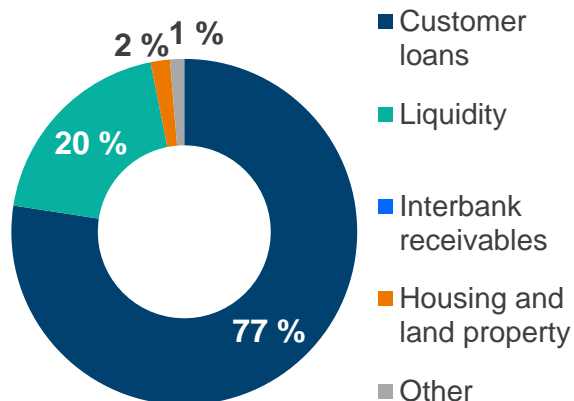




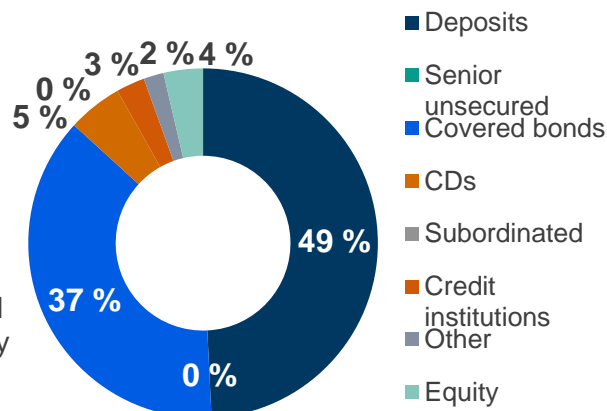
# Strong Balance Sheet



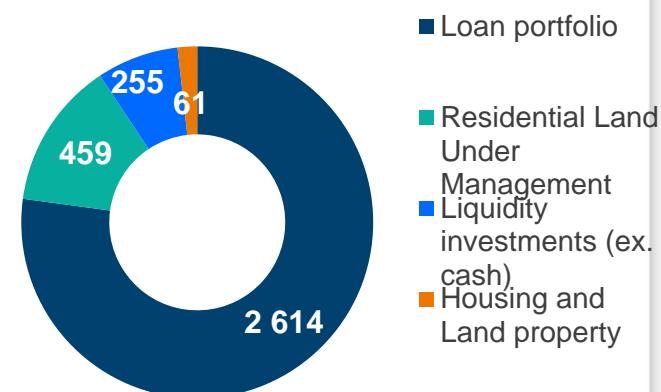
## Total Assets



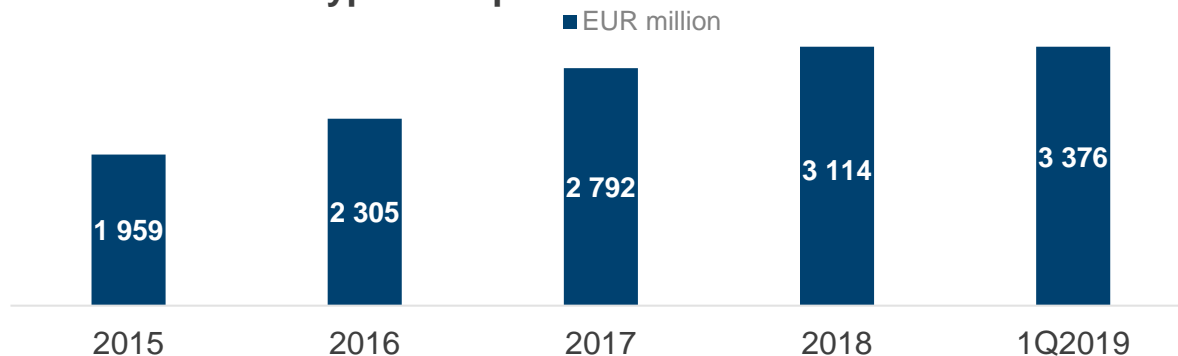
## Liabilities and Equity



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



## Hypo Group Balance Sheet Total



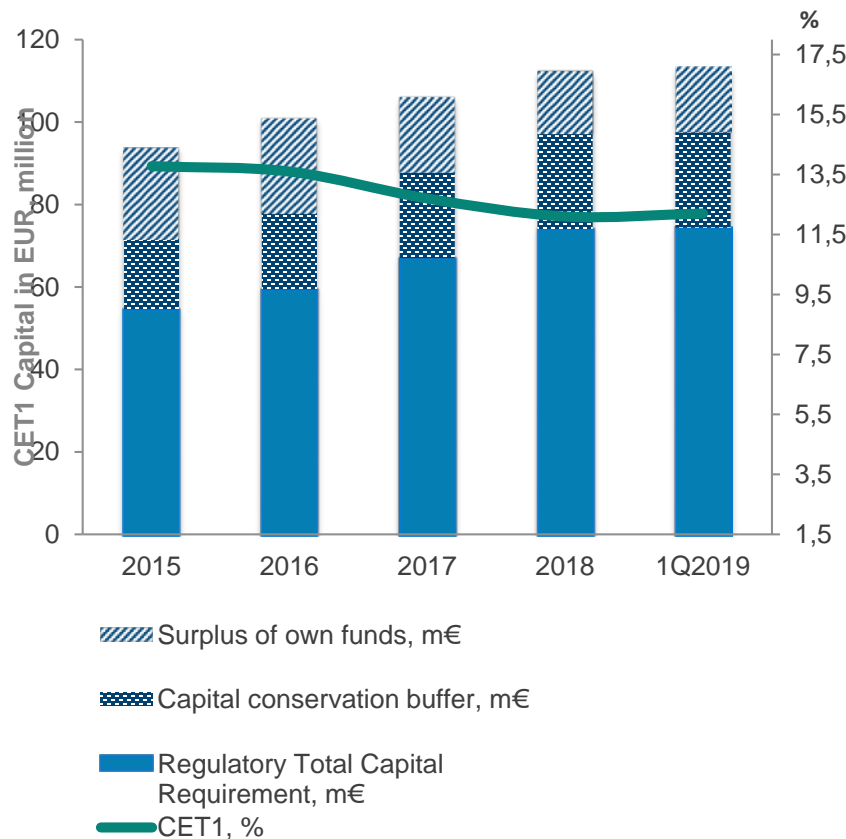
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# Solid Capital Basel III Standard Approach



## Capital Ratios



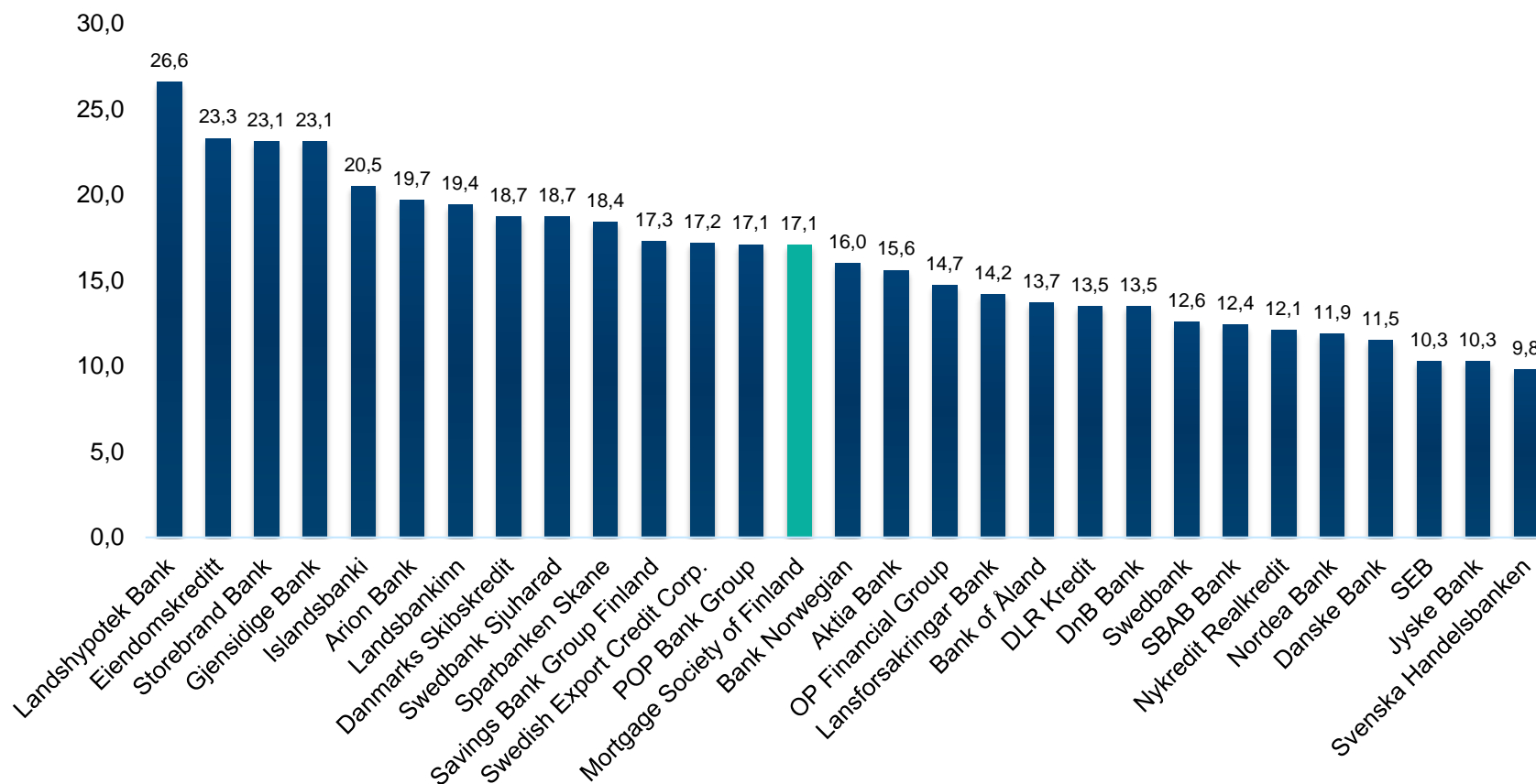
- Mutual company: all profits retained and added to the core capital
- Common Equity Tier 1 12.2%
- S&P's Risk Adjusted Capital 15.9 % on 31.12.2018
  - Markedly higher than Finnish peers applying internal methods
- EUR 15.7 million of excess capital after
  - 8.0% Regulatory TC requirement
  - 2.5% Capital Conservation Buffer
- EUR 5.0 million of hidden reserves in housing property (not marked-to-market) and EUR 5.8 million of surplus in Pension Fund
  - Inclusion into CET1 would raise the ratio to 13.1%
- 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)	1Q2019	1Q2018	2018	2017
<b>Net Interest Income</b>	3 393	2 705	12 331	8 991
<b>Net Fee and Commission Income</b>	784	892	3 795	3 525
<b>Total Other Income</b>	916	1 031	2 097	5 190
<b>Total expenses</b>	- 3 644	- 3 120	- 11 058	- 11 055
<b>Operating Profit</b>	<b>1 448</b>	<b>1 508</b>	<b>7 165</b>	<b>6 651</b>

- Net Interest Income continued to grow to EUR 3.4 million (EUR 2.7 million for January- March 2018) due to loan portfolio growth and lower funding costs.
- Hypo Group's operating profit was EUR 1.4 million (EUR 1.5 million). An increasing amount of operating profit originated from core business operations.
- Net Fee and Commission Income totaled EUR 0.8 million (EUR 0.9 million).
- Total other income (incl. treasury operations and housing and residential land) amounted to EUR 0.9 million (EUR 1.0 million).
- Total expenses totaled EUR 3.6 million (EUR 3.1 million).



# Group Key Financial Figures

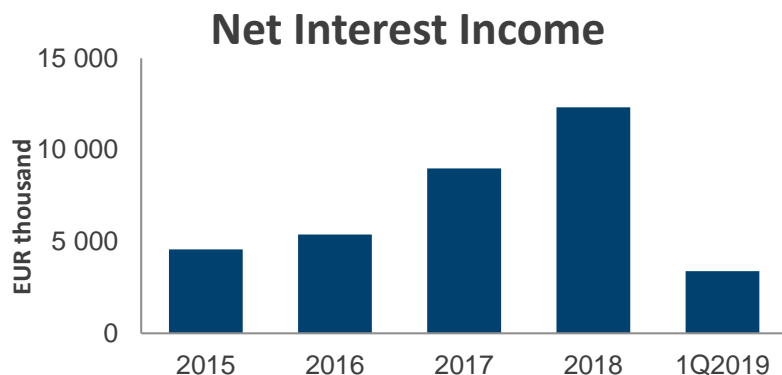


	1Q 2019	1Q 2018	2018	2017
Return on Equity (%)	3.8	4.3	5.0	4.9
Common Equity Tier 1 ratio (%)	12.2	12.6	12.1	12.7
Cost-to-income ratio (%)	71.6	67.6	60.6	62.5
Non-performing assets (%)	0.09	0.13	0.07	0.14
Loan-to-value ratio (%)	35.6	36.5	35.8	37.4
Loans-to-deposits (%)	157.3	155.6	150.7	143.6
Loan portfolio total (m€)	2 614	2 266	2 589	2 213
Balance sheet total (m€)	3 376	2 710	3 114	2 792

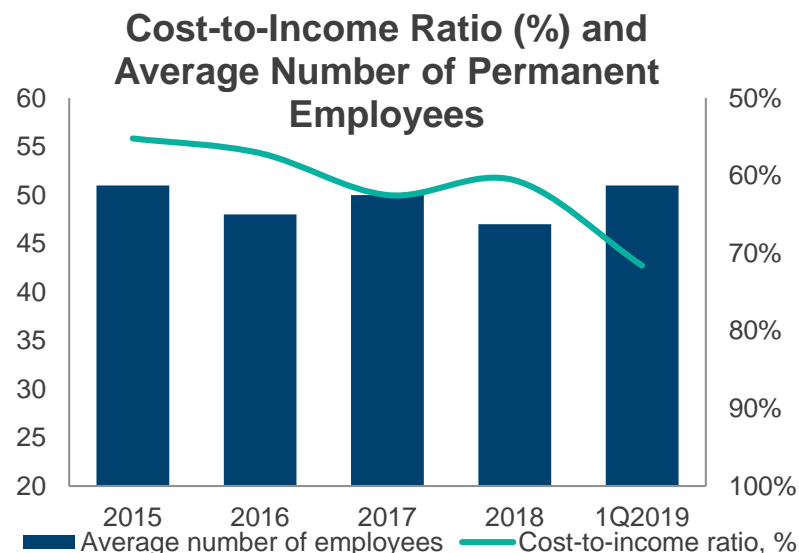
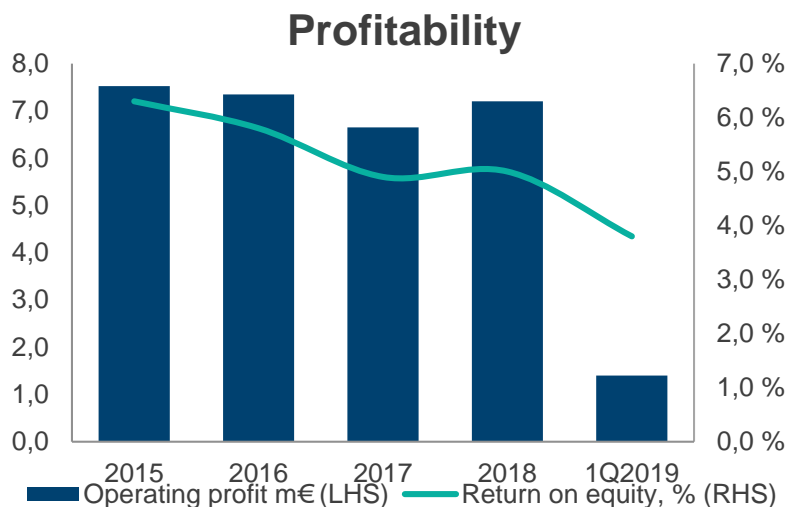
- Total cost grew due to Contribution to the Financial Stability Authority while operating costs remained at modest level.
- Total assets increased to EUR 3.4 billion and loan portfolio grew to EUR 2.6 billion.
- CET1 ratio was 12.2% and the amount of equity increased to EUR 123.1 million.
- Group's financial position remained stable throughout the period.



# Net Interest Income Increases Despite Low Interest Rate Environment



- Net interest income continued to grow to EUR 3.4 million (EUR 2.7 million) due to loan portfolio growth and lower funding costs.
- Operating profit was EUR 1.4 million (EUR 1.5 million for January–March 2018)
- Cost-to-income ratio 71.6% (60.6 %)



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# Hypo's Loan Book



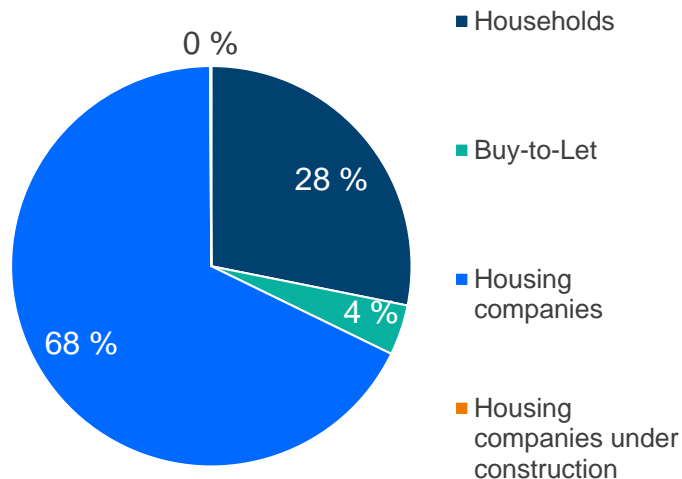


# Loan Book Overview

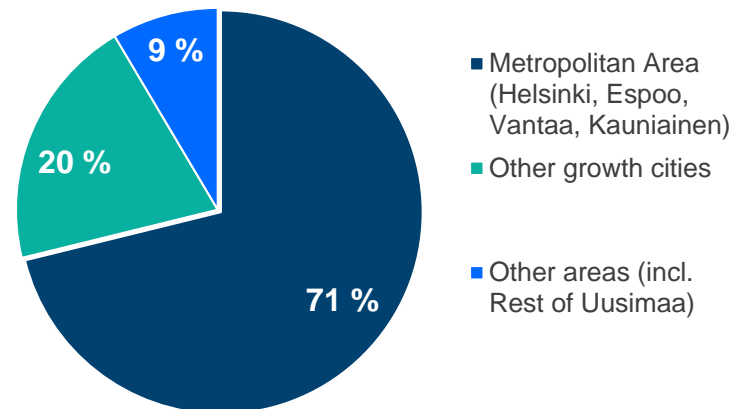


- Mortgage loans secured by residential property
- Collateral requirement is set in the Finnish Act on Mortgage Societies
- Two main customer groups
  1. Households: home mortgage, buy-to-let
  2. Housing companies: renovation loans, construction phase loans

## Lending by Customer Type



## Loan Book by Customer Domicile



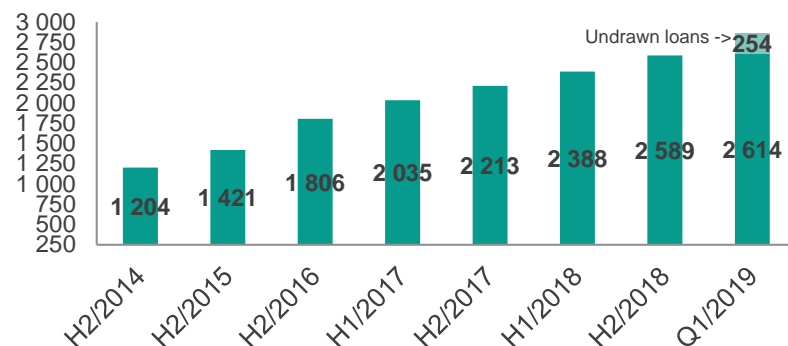
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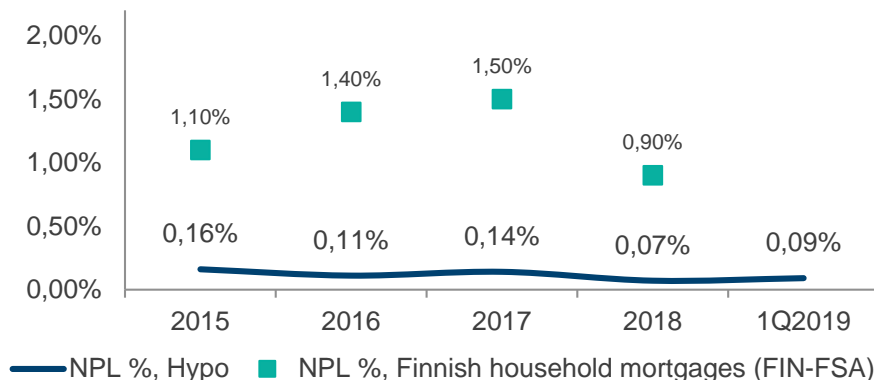
# Loan Book Steady



## Hypo Loan Book Total, m€



## Non-performing Loans (%)



- Hypo's loan book grew to EUR 2 614 million with annual growth of 15 %
- Currently EUR 254 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 0.09% of total loans
- The quality of the loan book well above the Finnish household mortgage average NPLs.

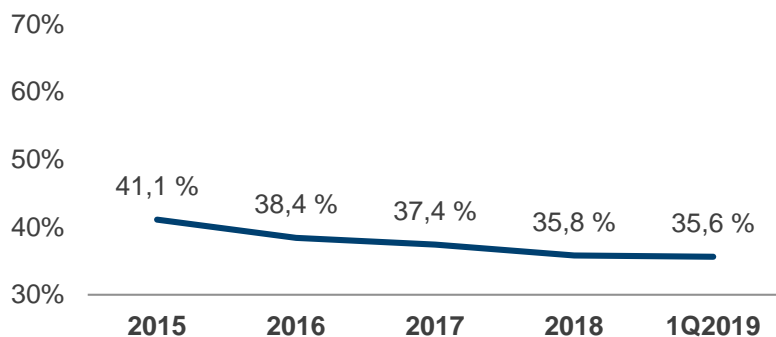
SECURE WAY FOR BETTER LIVING.



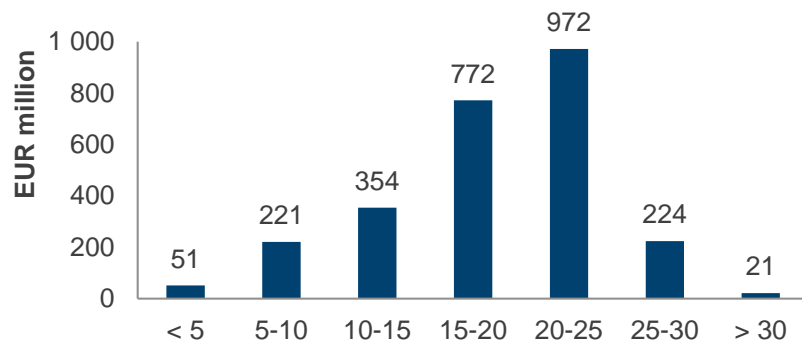
# Loan Book Quality Excellent



## 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 35.6 %
- 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



# 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 31.3.2019 (nominal amount issued)

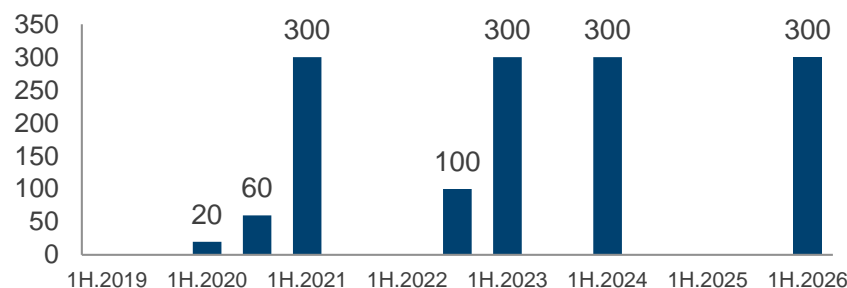
Type	ISIN	Issue Date	Maturity Date	Nominal (m€)	Coupon	Pricing
Covered	FI4000206966	10.5.2016	10.5.2021	250	Fixed +0.25	MS +22
Covered	FI4000206966 (tap)	27.9.2016	10.5.2021	50	Fixed +0.25	MS +10
Covered	FI4000232855	7.12.2016	7.12.2022	100	Fixed +0.25	MS +11
Covered	FI4000266903	28.6.2017	28.6.2024	250	Fixed +0.375	MS +9
Covered	FI4000266903 (tap)	25.10.2017	28.6.2024	50	Fixed +0.375	MS +4
Covered	FI4000315841	24.4.2018	24.4.2023	250	Fixed +0.375	MS +6
Covered	FI4000315841 (tap)	14.11.2018	24.4.2023	50	Fixed +0.375	MS +9
Covered	FI4000375092	13.3.2019	13.3.2026	300	Fixed +0.5	MS +15



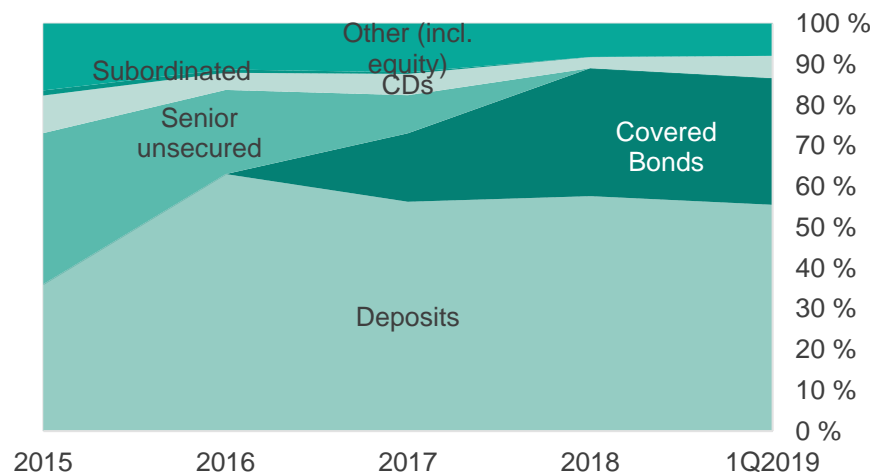
# Diversified Funding Profile



**Maturity Profile - Long Term Wholesale Funding**



**Funding Structure**



- Deposits through the AsuntoHypoPankki subsidiary form currently ~50% of total funding
- Covered bonds currently ~38% of total funding
- Domestic CD program supports short term funding needs

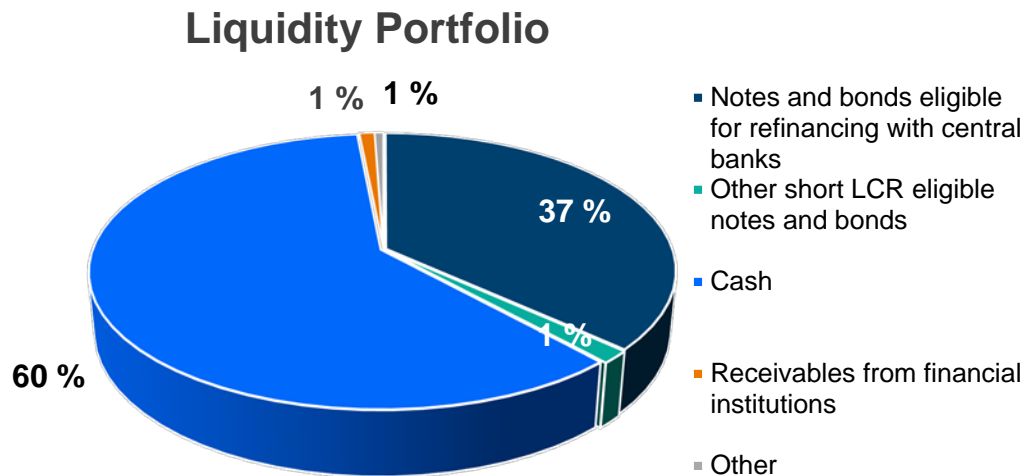


# Solid Liquidity Position



## Liquidity portfolio EUR 666.6 million as of 31.3.2019

- Equaling 19.7 % of total assets
- Conservative investment policy
  - 96.2 % of debt securities invested in at least 'AA-' rated instruments
  - 92.2 % of debt securities are ECB repo eligible
- Only EUR denominated exposure
- Hypo's domestic MTN and CD programs support liquidity
- LCR 138.0 % (122.6 % ye2018)
- Liquidity covers wholesale funding cash flows for the following 48 months.





# 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 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 between and within areas 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 of net interest and net fee 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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