

# Hypo Investor Update 3Q2020

Debt Investor Presentation



Published on October 30, 2020

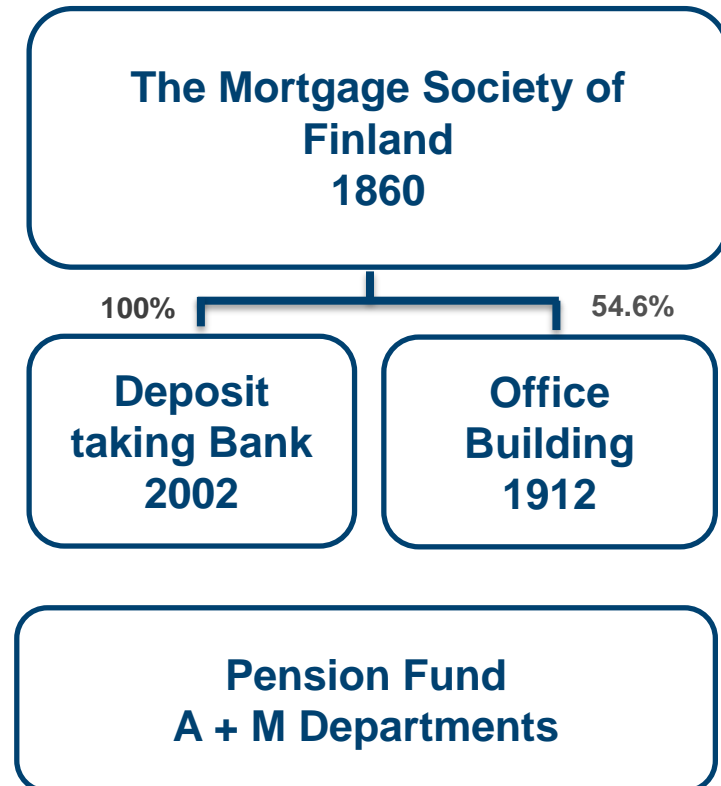


**Secure Way for Better Living**

# Hypo Group Overview



- Founded in 1860
  - The oldest private credit institution in Finland
- Retail banking, no corporate lending
- Supervised by the FIN-FSA
- Specialised 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 0.13%)
- Established and regular issuer in Finland
- Total assets EUR 3.2 billion
- S&P issuer rating 'BBB/A-2' (neg.)
- S&P covered bond rating 'AAA' (neg.)



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



## Anchor Rating for Finnish Commercial Banks

a-

### 1. Hypo business position

-2

- Monoline business model as a pure residential mortgage financier
- Conservative approach to risks and a very low risk appetite

### 2. Hypo capital and earnings

+2

- Very strong risk-adjusted capitalization (RAC)
- Mutual company: retained profits solely used for capital buildup
- Interest income from loans expected to be lower in 2020 due to turbulent markets and cautious lending but return to growth in 2021-22

### 3. Hypo risk position

-1

- Strong asset quality and exceptional loan-loss track record in the past decades
- Concentration and cyclical risk due to focus on residential mortgage lending
- Conservative lending and underwriting standards

### 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

## Hypo Credit Rating

**BBB (neg)**

# Hypo Leading the Debate on Finnish Mortgage Market



TALOUSSANOMAT

OMX HELSINKI

NOVRE GROUP PL

10:34

9

ETUSIVU

UUTISET

PÖRSSI

**"Asuntolaina ei ole enää kahvipaketti vaan mäyräkoira kankkunen uhkaa"**



-Vaikka ymmärrän Fivan toimia, toivoisin täsmätoimia. Oikeampi ja tehokkaampi osoite k...

**Hypo ennustaa Suomen talouteen seitsemän prosentin laskua – Synkempiäkin arvioita on nähty**

Pääekonomisti Juhana Brotheruksen mukaan patoutunut kysyntä auttaa talouden palautumista ja moni on valmis kuluttamaan heti tilaisuuden tullen.

Suomen talous 10.7.2020 klo 01.26

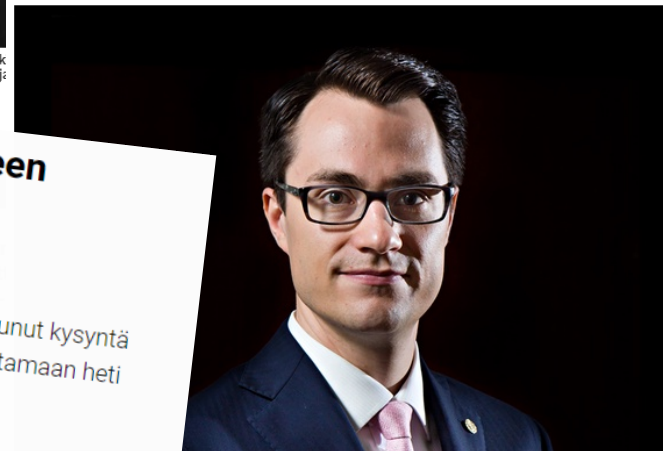
**Taloyhtiöiden maineen pi...**  
**harmittaa asuntorahoitus...**



**Piskuinen Hypo peittosi talousennusteiden tarkkuudessa alan jätit - yksi valteista "hiljainen tieto", jota muut eivät voi hyödyntää**

21.6.2020 07:15 | päivitetty 21.6.2020 13:22

KANSANTALOUS SUHDANTEET VELKAKRIISI YHTEISKUNTA



**Talouskasvu hyytyy - Hypo ennustaa Suomen käyvän taantumassa loppuvuonna**

30.8.2019 05:00 | päivitetty 30.8.2019 11:40

KANSANTALOUS ASUMINEN POLITIIKKA



ksen mukaan taantumun mahdollisuutta  
KUVA: KIMMO HAAPALA

**Hypo: Maakuntakeskukset uudessa pudotuspelissä asuntomarkkinoilla – opiskelijat puuttuvat vuokramarkkinoilta ja talous taantuu**

Erityisesti opiskelijavaltaiset Vaasa, Joensuu ja Jyväskylä ovat kovan paikan edessä syksyllä, arvioi asuntorahoittaja Hypo asuntomarkkinakatsauksessaan.

Kiinteistökauppa 22.8.2020 klo 00:01

SECURE WAY FOR BETTER LIVING.



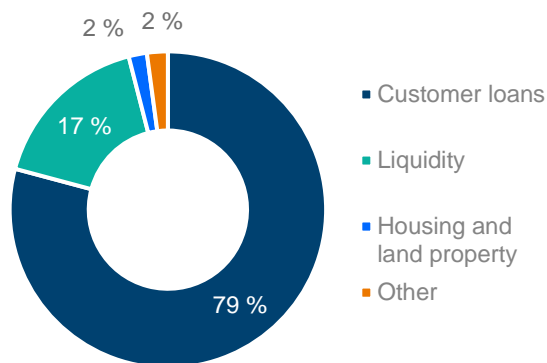
# Financial Results



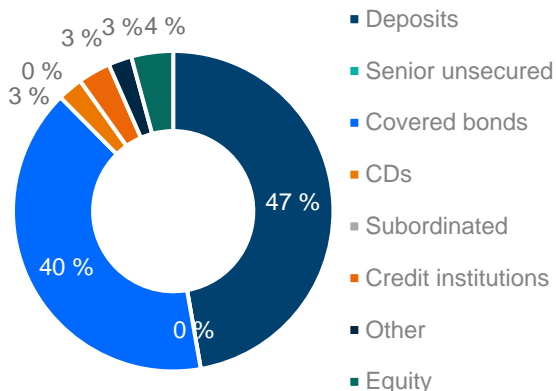
# Strong Balance Sheet



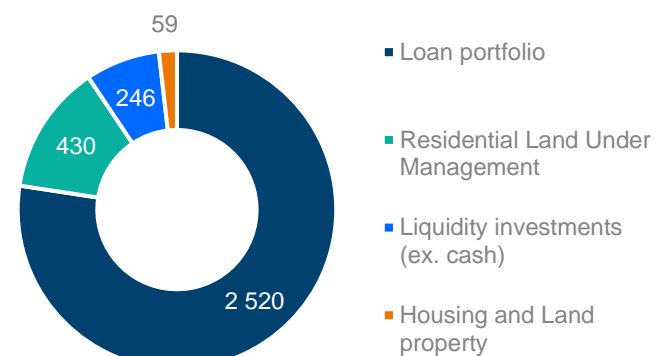
Total Assets



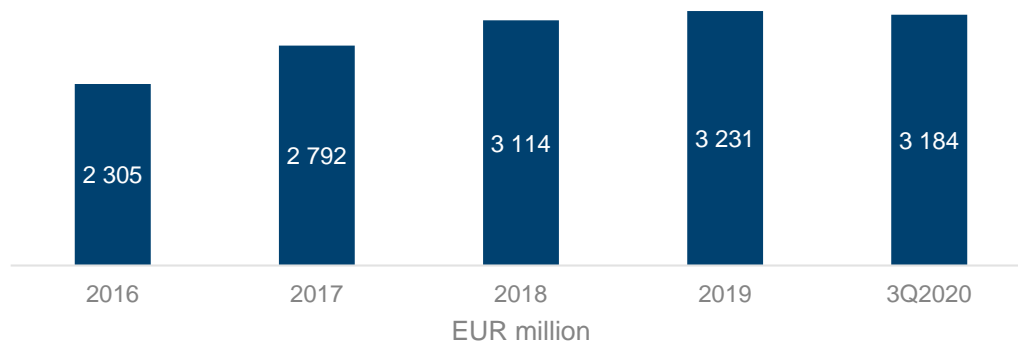
Liabilities and Equity



Revenue generating assets (m€), on and off balance sheet

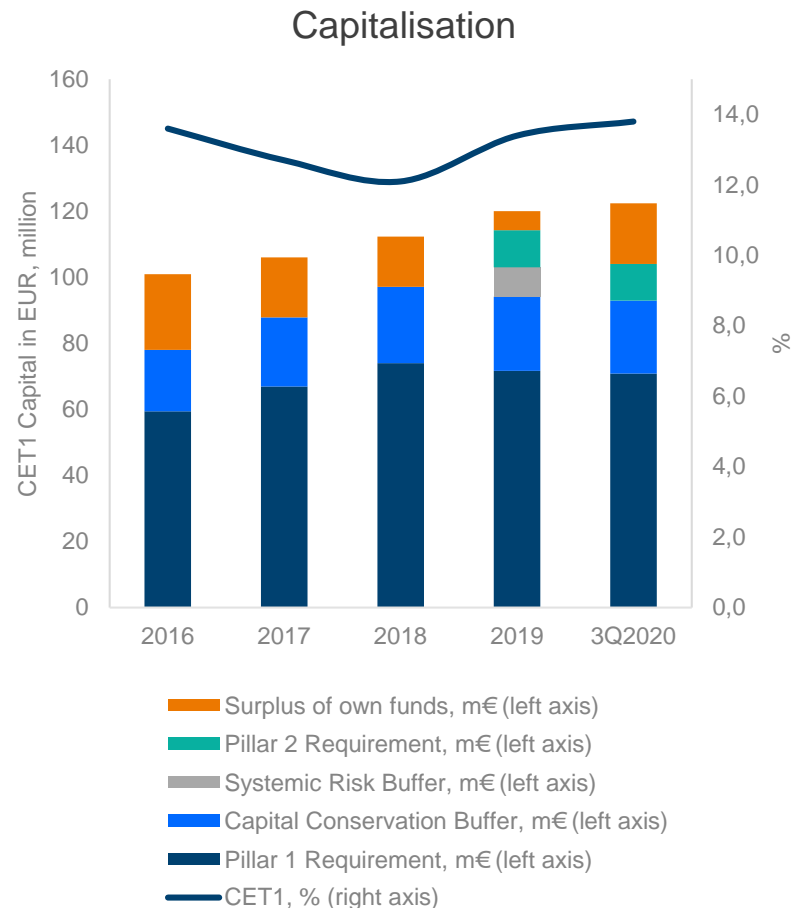


Balance Sheet Total



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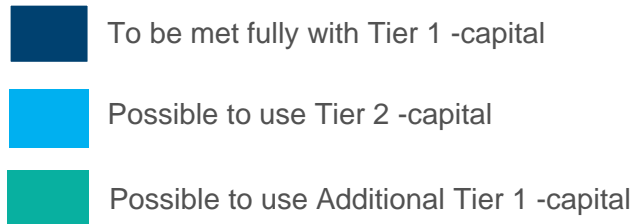
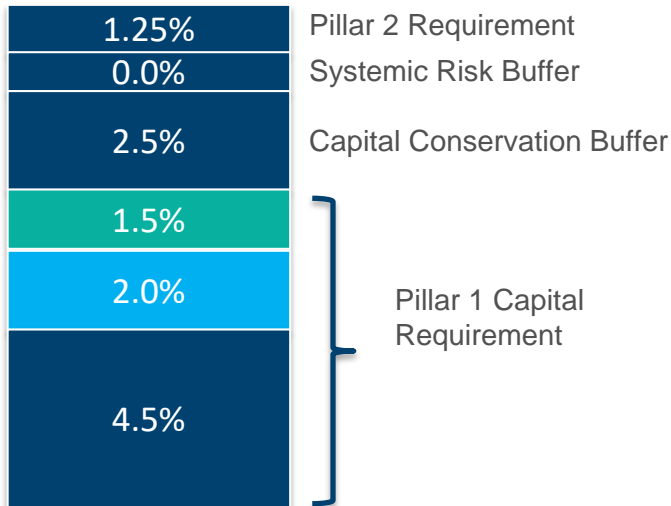
# Solid Capital Basel III Standard Approach



- Mutual company: all profits retained and added to the core capital
- S&P's Risk Adjusted Capital 16.9% on 31.12.2019
- Total Capital Ratio (all CET1) 13.8%
- EUR 18.4 million of excess capital after
  - 8.0% Pillar 1 Requirement
  - 2.5% Capital Conservation Buffer
  - 0% Systemic Risk Buffer
  - 1.25% Pillar 2 Requirement
- EUR 4.9 million of hidden reserves in housing property (not marked-to-market) and EUR 5.0 million of surplus in Pension Fund
  - Inclusion into CET1 would raise the ratio to 14.7%
- Basel III standardized approach risk weights
  - Lending with residential collateral: 35% risk weight
  - Housing and land investments: 100% risk weight



# Hypo Group's Capital Requirements



Pillar 1 Capital Requirement 8.00%

Capital Conservation Buffer 2.50%

Systemic Risk Buffer 0.00%

- 0% from 6.4.2020 onwards

Pillar 2 Requirement 1.25%

- Entered into force on 31.12.2019

→ Total Capital Requirement now 11.75%

# Group Income Statement



(EUR 1 000)	1-9/2020	1-9/2019	2019	2018
<b>Net Interest Income</b>	10 776	10 433	14 452	12 331
<b>Net Fee and Commission Income</b>	2 755	2 709	3 562	3 795
<b>Total Other Income</b>	2 619	2 058	2 689	2 097
<b>Total expenses</b>	-11 011	-8 813	- 12 296	- 11 058
<b>Operating Profit</b>	<b>5 138</b>	<b>6 386</b>	<b>8 407</b>	<b>7 165</b>

- Net Interest Income continued to grow to EUR 10.8 million (EUR 10.4 million for January-September 2019) due to lower funding costs and the growth of other interest income.
- Hypo Group's operating profit was EUR 5.1 million (EUR 6.4 million).
- Net Fee and Commission Income totaled EUR 2.8 million (EUR 2.7 million).
- Total other income (incl. treasury operations and housing and residential land) amounted to EUR 2.6 million (EUR 2.1 million).
- Total expenses totaled EUR 11.0 million (EUR 8.8 million). The largest increase came from the yearly contribution to the Single Resolution Fund which totaled EUR 1.7 million (EUR 0.9 million) and was fully expensed during Q2.

# Group Key Financial Figures



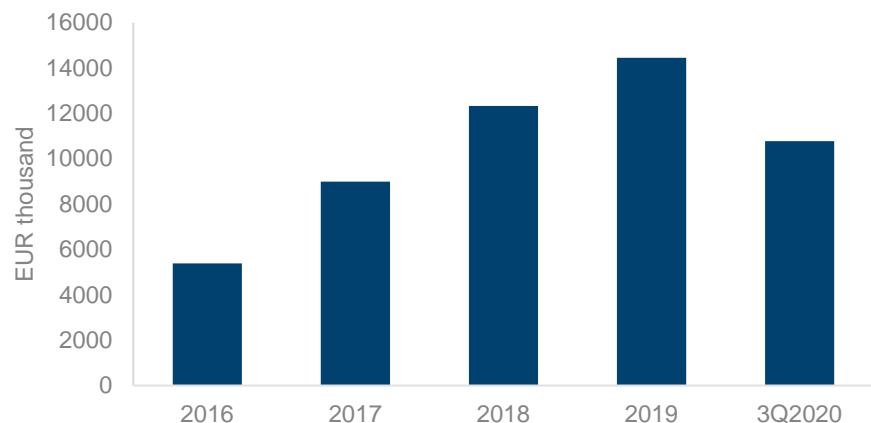
	1-9/2020	1-9/2019	2019	2018
Return on Equity (%)	4.2	5.5	5.5	5.0
Common Equity Tier 1 ratio (%)	13.8	12.6	13.4	12.1
Cost-to-income ratio (%)	67.9	58.2	59.6	60.6
Non-performing assets (%)	0.13	0.10	0.10	0.07
Loan-to-value ratio (%)	33.8	35.5	35.3	35.8
Loans-to-deposits (%)	167.6	167.5	158.8	150.7
Loan portfolio total (m€)	2 520	2 677	2 586	2 589
Balance sheet total (m€)	3 184	3 224	3 231	3 114

- Total assets were EUR 3.2 billion and loan portfolio EUR 2.5 billion.
- CET1 ratio was 13.8% (13.4% on 31 December 2019) and equity amounted to EUR 134.4 million (129.8 million on 31 December 2019).
- Group's financial position remained stable throughout the period.

# Net Interest Income Continued to Increase



Net Interest Income



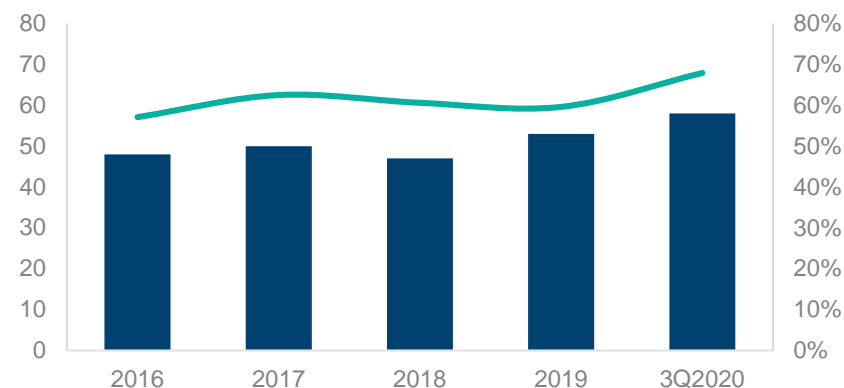
- Net interest income continued to grow to EUR 10.8 million (EUR 10.4 million 1-9/2019) due to lower funding costs and the growth of other interest income
- Operating profit was EUR 5.1 million (EUR 6.4 million 1-9/2019)
- Cost-to-income ratio 67.9% (58.2% 1-9/2019)

Profitability



■ Operating profit m€ (LHS)    — Return on equity, % (RHS)

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



■ Number of employees    — Cost-to-income ratio, %

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# Hypo's Loan Book

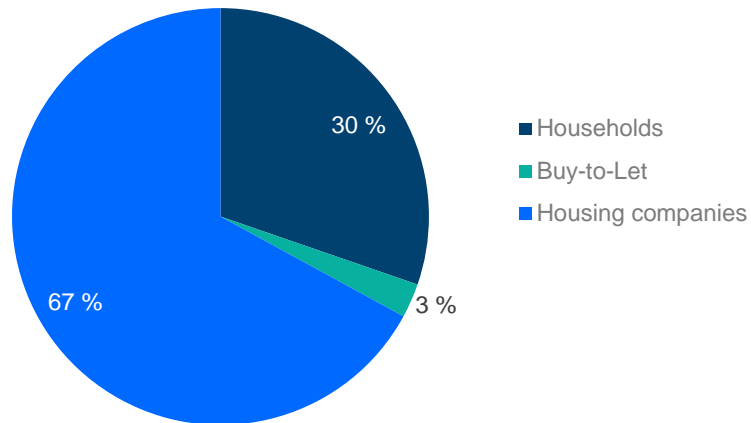


# Loan Book Overview

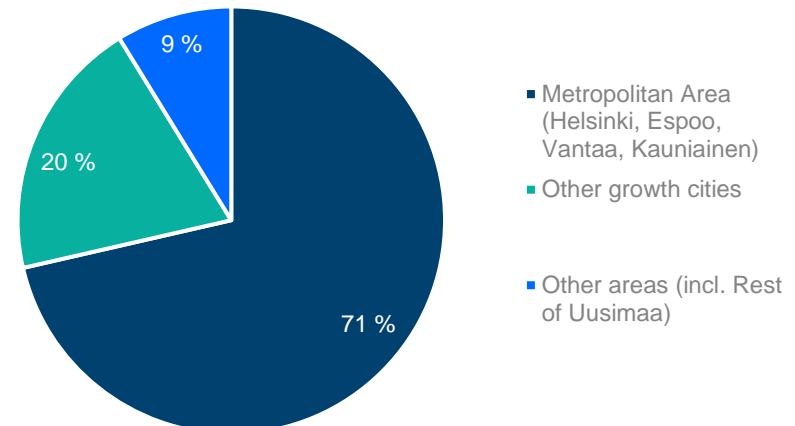


- Mortgage loans secured by residential property
- Collateral requirement is set in the Finnish Act on Mortgage Societies
- Two main customer groups
  1. Households: home mortgage, buy-to-let
  2. Housing companies: renovation loans, construction phase loans

Lending by Customer Type



Loan Book by Customer Domicile

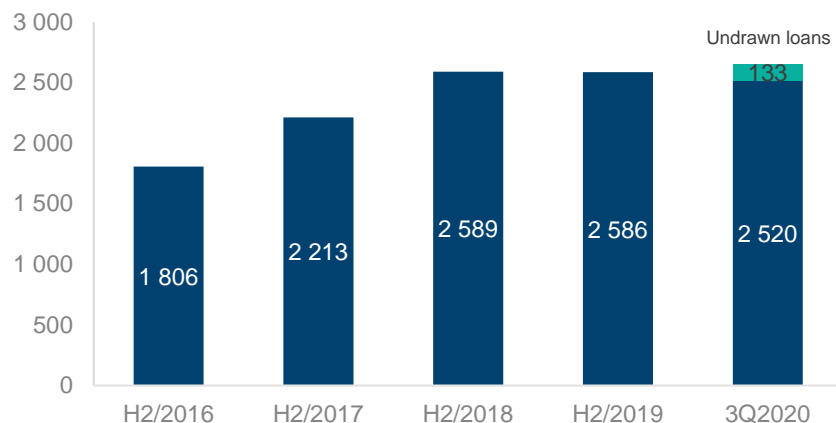




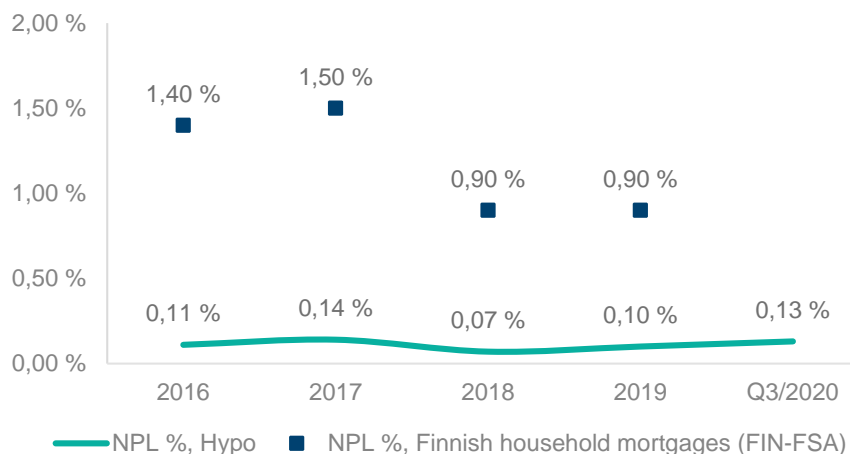
# Loan Book Quality Excellent



Hypo Loan Book Total, m€



Non-performing Loans (%)



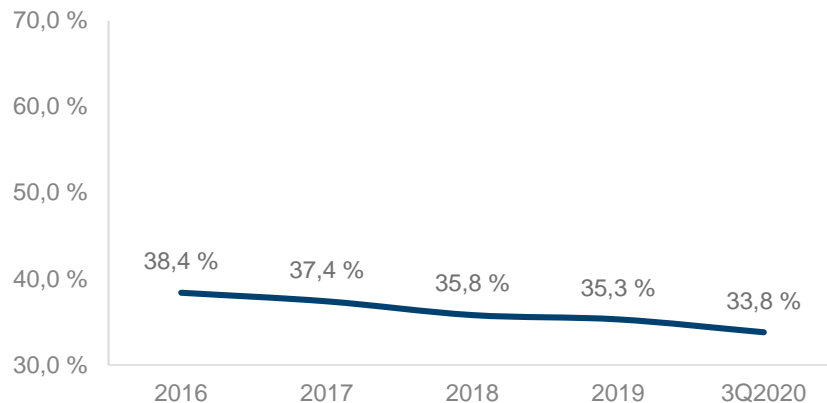
- The loan portfolio decreased slightly to EUR 2 520 million (EUR 2 586 on 31 December 2019) due to active management measures taken during H1, but increased again during the financial period
- Currently EUR 133 million undrawn loans
- All lending is against residential collateral
- Only EUR denominated 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 0.13% of total loans
- The quality of the loan book well above the Finnish household mortgage average NPLs.

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# Loan Book Securely Collateralised

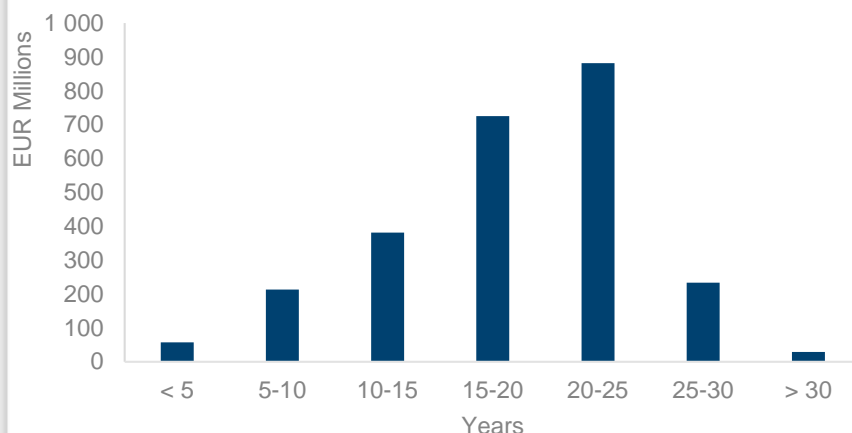


Hypo Loan Book Average LTV



- Hypo's loan portfolio is entirely secured by residential property
- The average LTV (loan-to-value) stable at 33.8%
- 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 17 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

Loan Book by Remaining Maturity (years)



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# Funding and Liquidity



# Funding Strategy



- Covered bond program was inaugurated in 2016
  - Issuer is the group parent, no separate entity
  - Larger issues ( $\geq 250$  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 30.9.2020 (nominal amount issued)

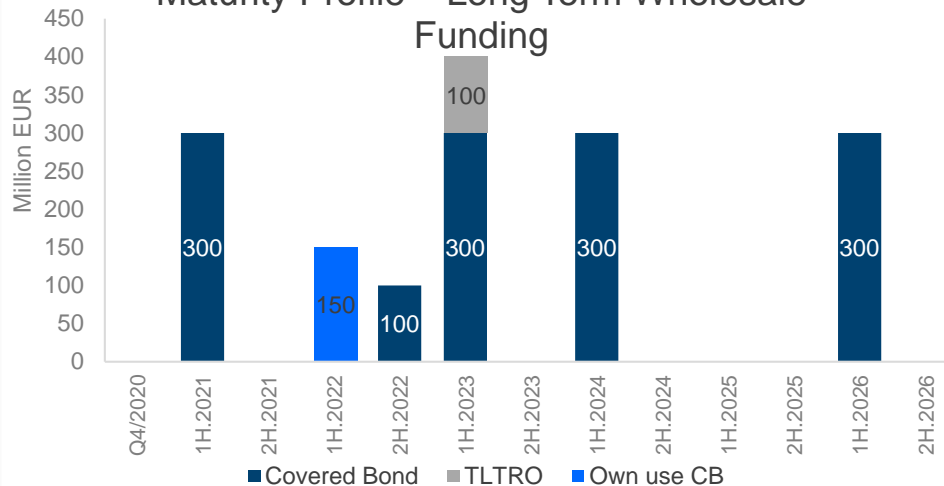
Type	ISIN	Issue Date	Maturity Date	Nominal (m€)	Coupon	Pricing
Covered	FI4000206966	10.5.2016	10.5.2021	250	Fixed +0.25	MS +22
Covered	FI4000206966 (tap)	27.9.2016	10.5.2021	50	Fixed +0.25	MS +10
Covered	FI4000232855	7.12.2016	7.12.2022	100	Fixed +0.25	MS +11
Covered	FI4000266903	28.6.2017	28.6.2024	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
Covered	FI400429410 (own use)	29.4.2020	29.4.2022	150	Fixed +0.01	MS +22.3

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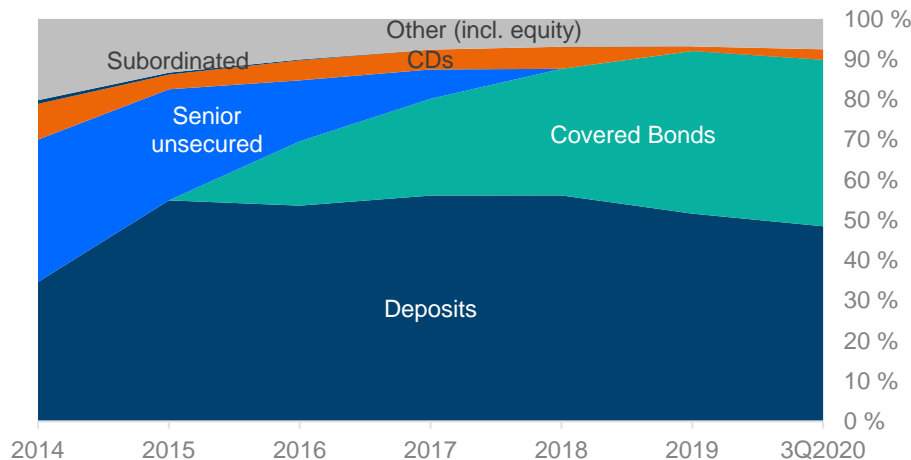
# Diversified Funding Profile



Maturity Profile – Long Term Wholesale Funding



Funding Structure



- Deposits through the AsuntoHypoPankki subsidiary form currently ~48% of total funding
- Covered bonds currently ~41% of total funding
- Domestic CD program supports short term funding needs

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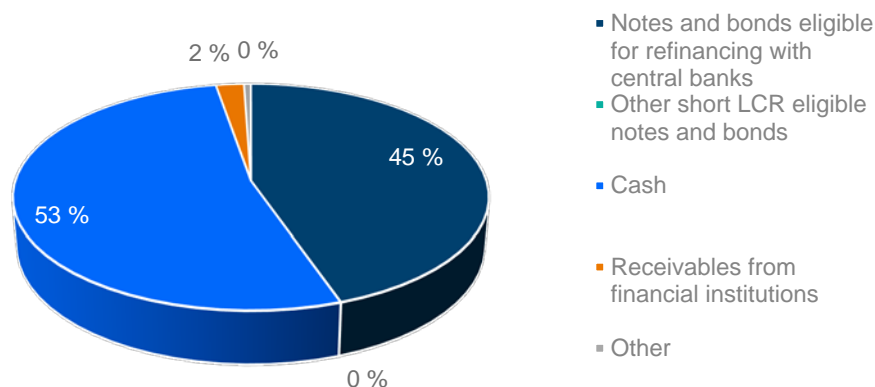
# Solid Liquidity Position



## Liquidity portfolio EUR 551.7 million as of 30.9.2020

- Equaling 17.3% of total assets
- Conservative investment policy
  - 100 % 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 180.5% (163.8% ye2019)
- Liquidity covers wholesale funding cash flows for the following 30 months.

Liquidity Portfolio





# Outlook



# Future Outlook



*“The coronavirus affects significantly to the economic outlook. Unemployment increases and economic development remains fragile until a possible cure is released. Housing markets in the growth centers are relatively strong even during the pandemic. Urbanization continues even in the time of a crisis, albeit at a slower pace. Ability to recover from the economic crisis varies widely across different areas in Finland with the Helsinki region among the strongest. Low interest rates, investors and stimulus from the government support newbuilding activity. Housing loan demand remains volatile and pricing will diverge between different customers and areas.*

*Hypo Group focuses on renewal of its core systems and on strengthening 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 continues to strengthen.*

*The operating profit for 2020 is expected to be slightly smaller than in 2019. The expectation contains uncertainties due to the development in economy and interest rates. The coronavirus pandemic has a major effect on the economy and is the largest single factor creating risks and uncertainty in the near future. ”*



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