

Hypo Investor Update Financial Year 2020

Unaudited release



Deal Related Roadshow (virtual) – February/March 2021

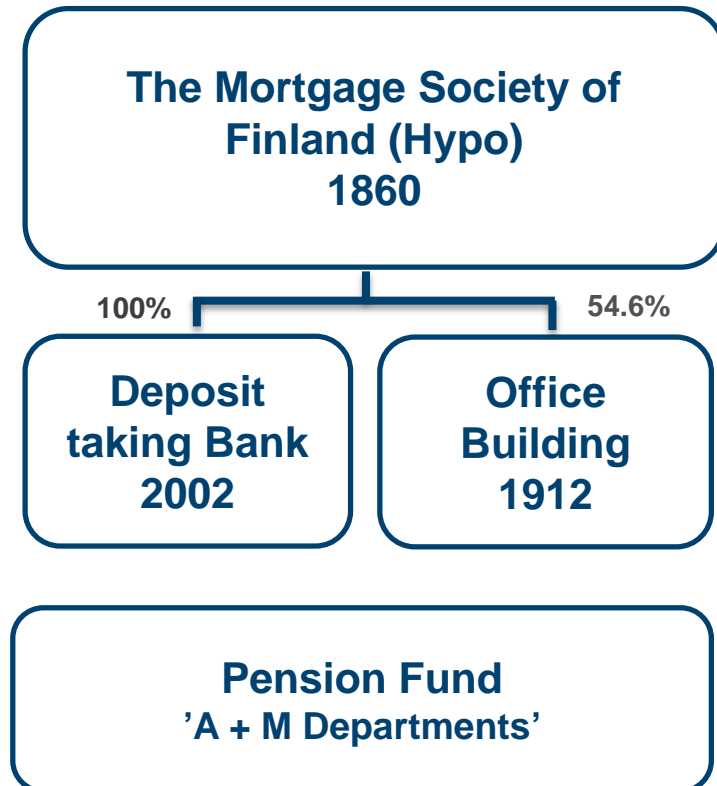


Secure Way for Better Living

Hypo Group Overview



- Founded in 1860
 - The oldest private credit institution in Finland
- Mutual company governed by the member customers
 - All returns are kept within Hypo
- Retail banking, no corporate lending
- Specialised in mortgage financing
- Residential property always as collateral
- Strong loan book - NPLs 0.11% (as at 2020)
- Total assets EUR 3.2 billion (as at 2020)
- Established and regular issuer in Finland
- S&P issuer rating 'BBB/A-2' (stable*)
- S&P covered bond rating 'AAA' (stable*)
- Supervised by the FIN-FSA



*outlook revised from negative to stable on Jan 22, 2021 for issuer and on Jan 29, 2021 for covered bonds.

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S&P Issuer Credit Rating of Hypo: 'BBB/A-2' (stable*)



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 (stable*)

Hypo Leading the Debate on Finnish Mortgage Market



"Asuntolaina ei ole enää kahvipaketti vaan mäyräkoira kankkunen uhkaa"



-Vaikka ymmärrän Fivan toimia, toivoisin täsmätoimia. Oikeampi ja tehokkaampi osasto oman kodin ostajien lainakaton sijasta asuntosijoittajat ja rs-lainat...
sanoo. (KUVA: Heikki Saukkomaa/Lehtikuva)

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 pahentaa asuntorahoitus



Piskuinen tarkkuus jota muu...

21.6.2020 07:15

Hypo odottaa yli 3 prosentin talouskasvua: "Edessä kesä, jossa nuoret kaulailevat festareilla ja baarien karaokeilla"

11.1.2021 04:30 | päivitetty 11.1.2021 07:50

KANSANTALOUS POLITIIKKA KORONAVIRUS SUOMEN HYPOTEKKIYHDISTYS ASUNTOLAINA



Talouskasvu hyytyy - Hypo ennustaa Suomen käyvän taantumassa loppuvuonna

30.8.2019 05:00 | päivitetty 30.8.2019 11:40

KANSANTALOUS ASUMINEN POLITIIKKA



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

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Finnish Economy & Housing Market

Overview



Finnish economy in a nutshell



				Forecast	
National account	2019	2019	2020	2021	2022
	EUR bn (current prices)			% y/y	
GDP	241	1,1	-3,2	3,2	2,5
Imports	96	1,1	-8,0	5,0	4,0
Exports	97	8,0	-10,5	6,0	6,0
Private Consumption	121	0,8	-3,7	4,0	2,5
Public Consumption	56	1,4	1,5	2,0	-0,5
Investments	57	-1,1	-2,5	2,0	2,0
Economic indicators	2019	2020	2021	2022	
Unemployment rate, %	6,7	7,7	8,0	7,5	
Earnings, % y/y	2,1	1,8	2,0	2,0	
Inflation, % y/y	1,0	0,3	1,0	1,0	
Housing prices, % y/y	0,7	1,4	1,5	-0,5	
Current account, % of GDP	-0,2	-0,4	-0,4	-0,2	
Public deficit, % of GDP	-1,0	-7,1	-4,5	-3,0	
Public debt/GDP, % of GDP	59,2	68,5	70,0	70,5	

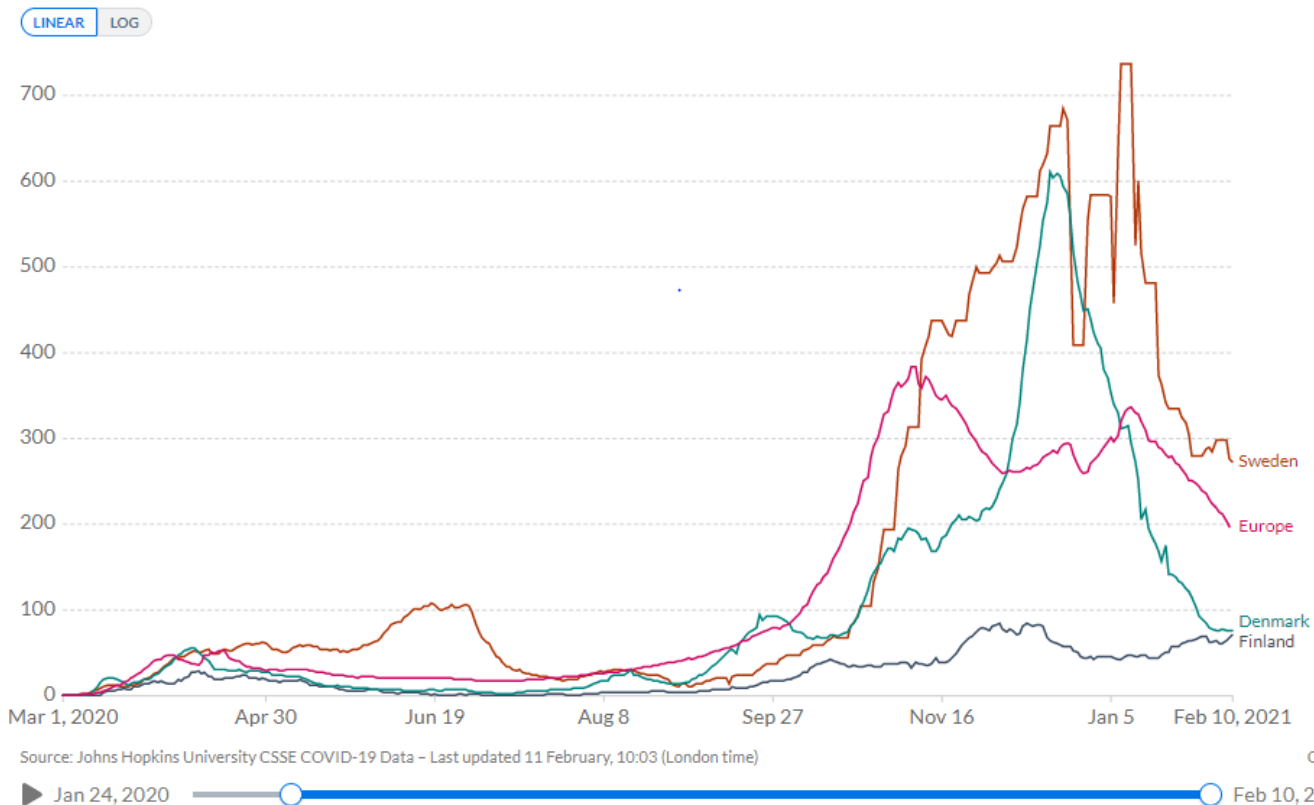
Finland best among peers



Daily new confirmed COVID-19 cases per million people

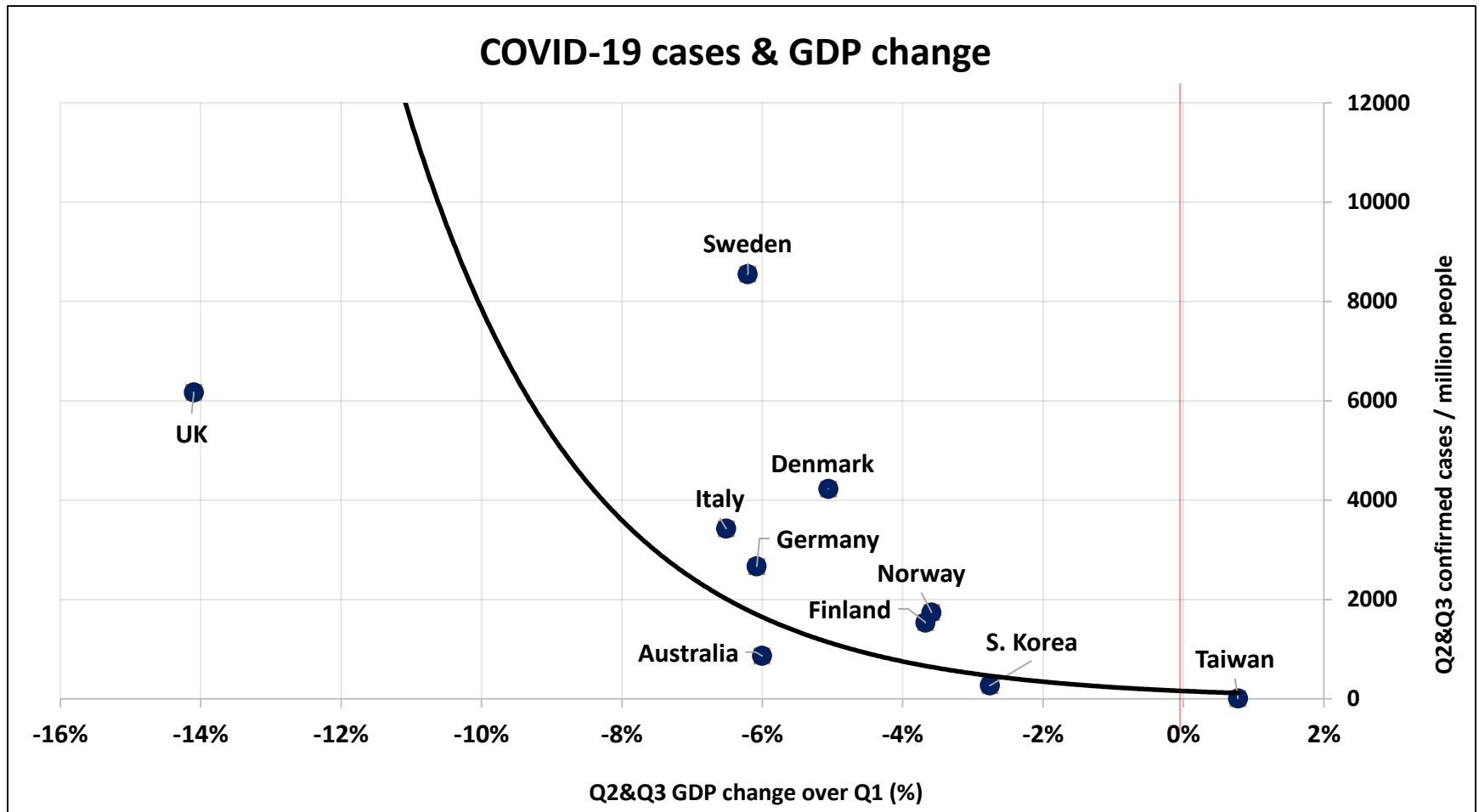
Shown is the rolling 7-day average. The number of confirmed cases is lower than the number of actual cases; the main reason for that is limited testing.

Our World
in Data



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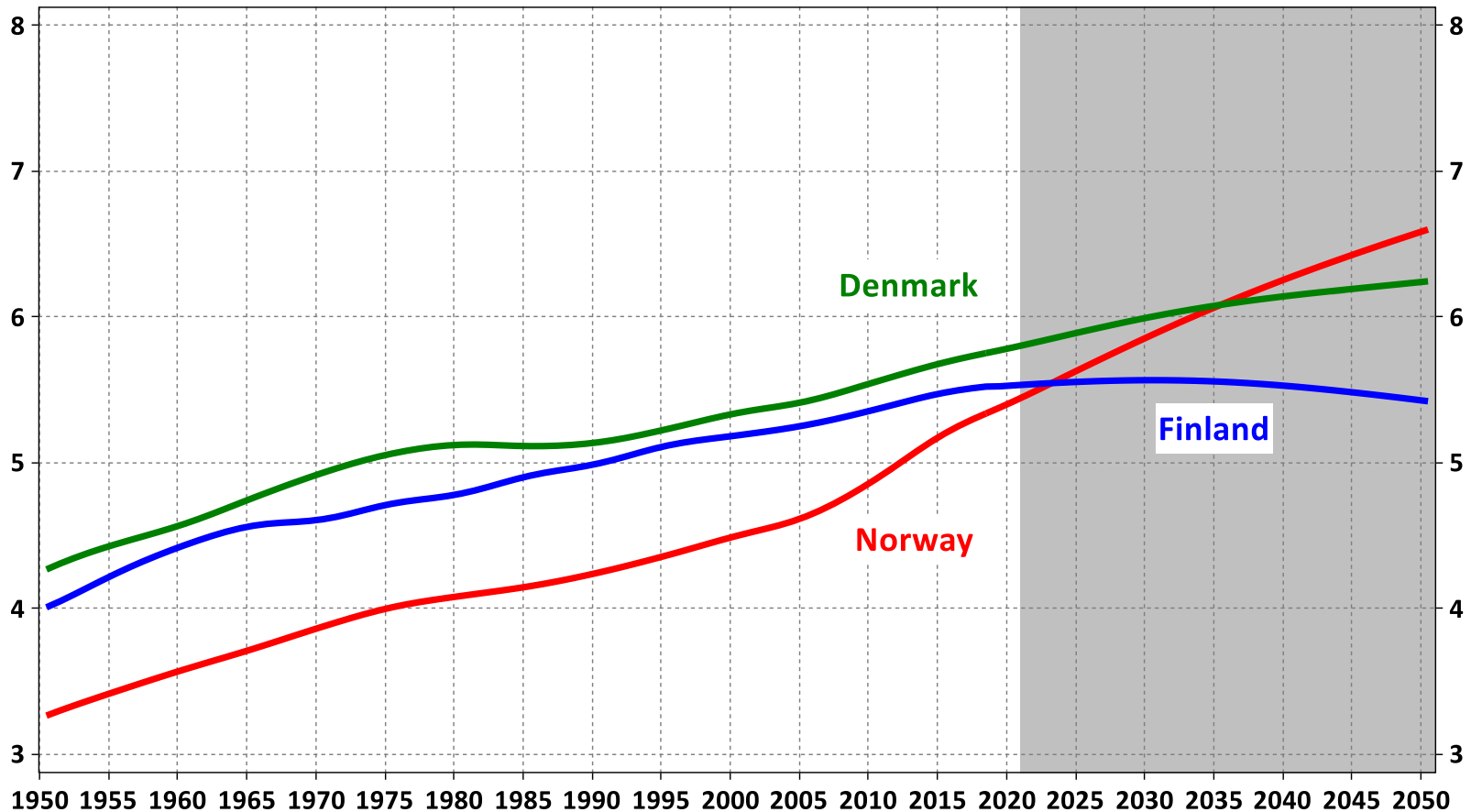
Finland best among peers



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Finland aging and soon shrinking

Million, Population, Projection: UN, Statistics Finland

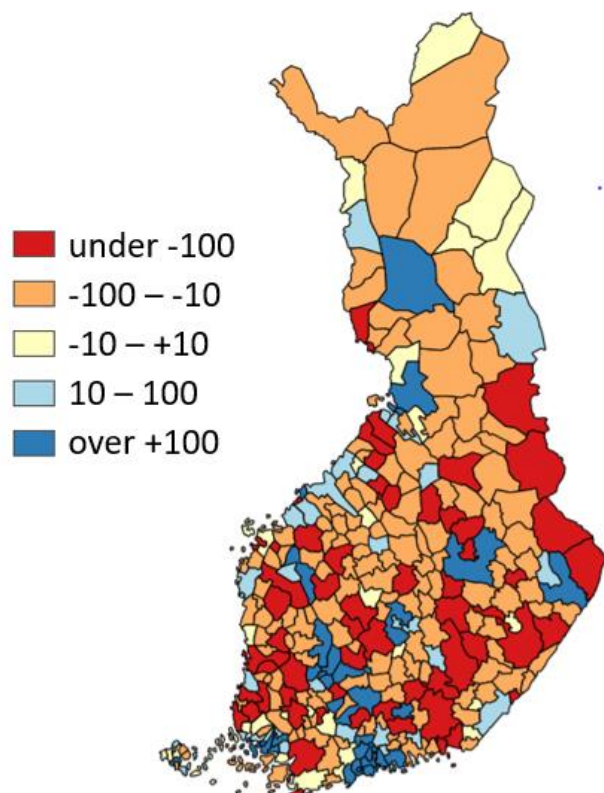


Source: Hypo, Macrobond

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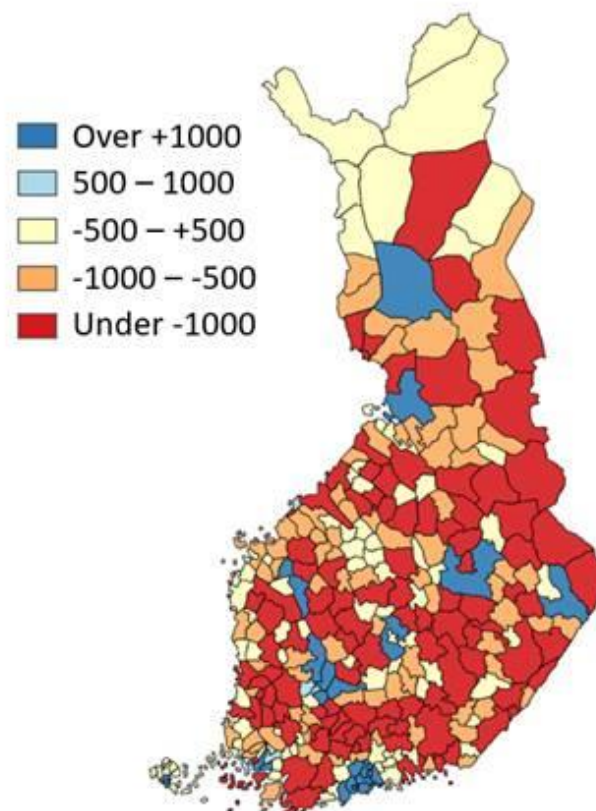
Urbanization immune to Covid-19

Population growth 2020



Source: Hypo, Statistics Finland

Population growth 2020–2040

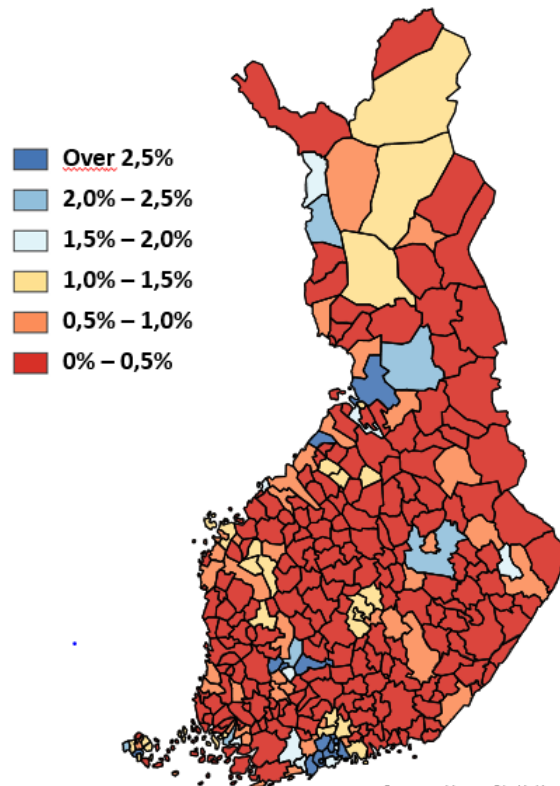


Source: Hypo, Statistics Finland

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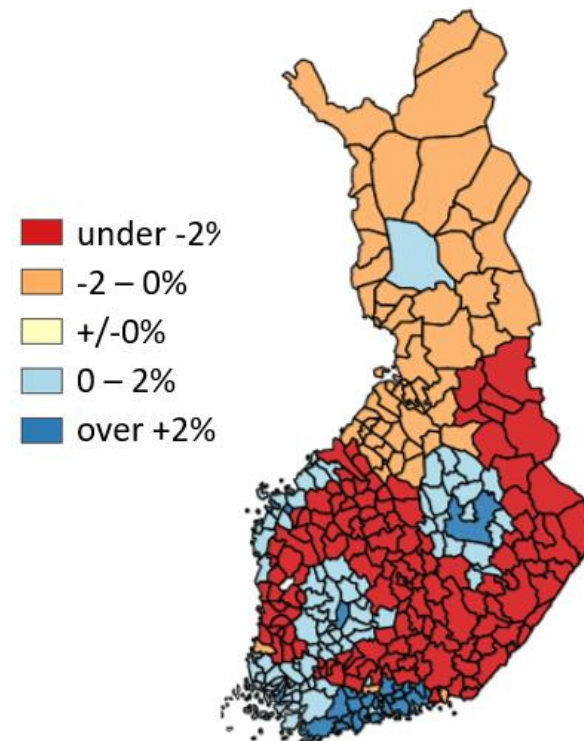
Urbanization immune to Covid-19

Newbuilding per housing stock 2020



Source: Hypo, Statistics Finland

House prices 2020

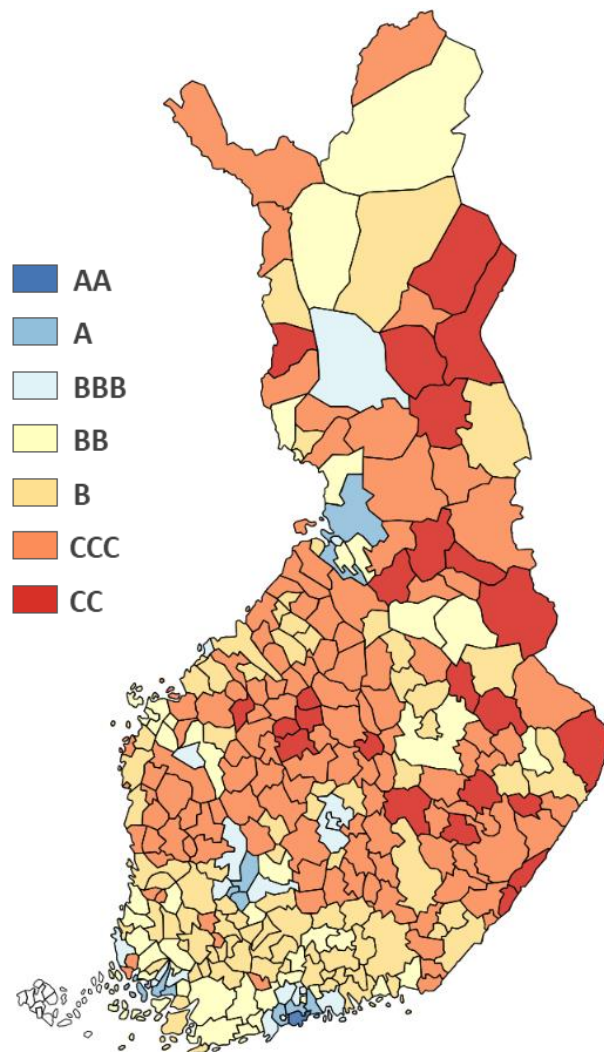


Source: Hypo, Statistics Finland

‘Hypo Regional Rating’ for collateral

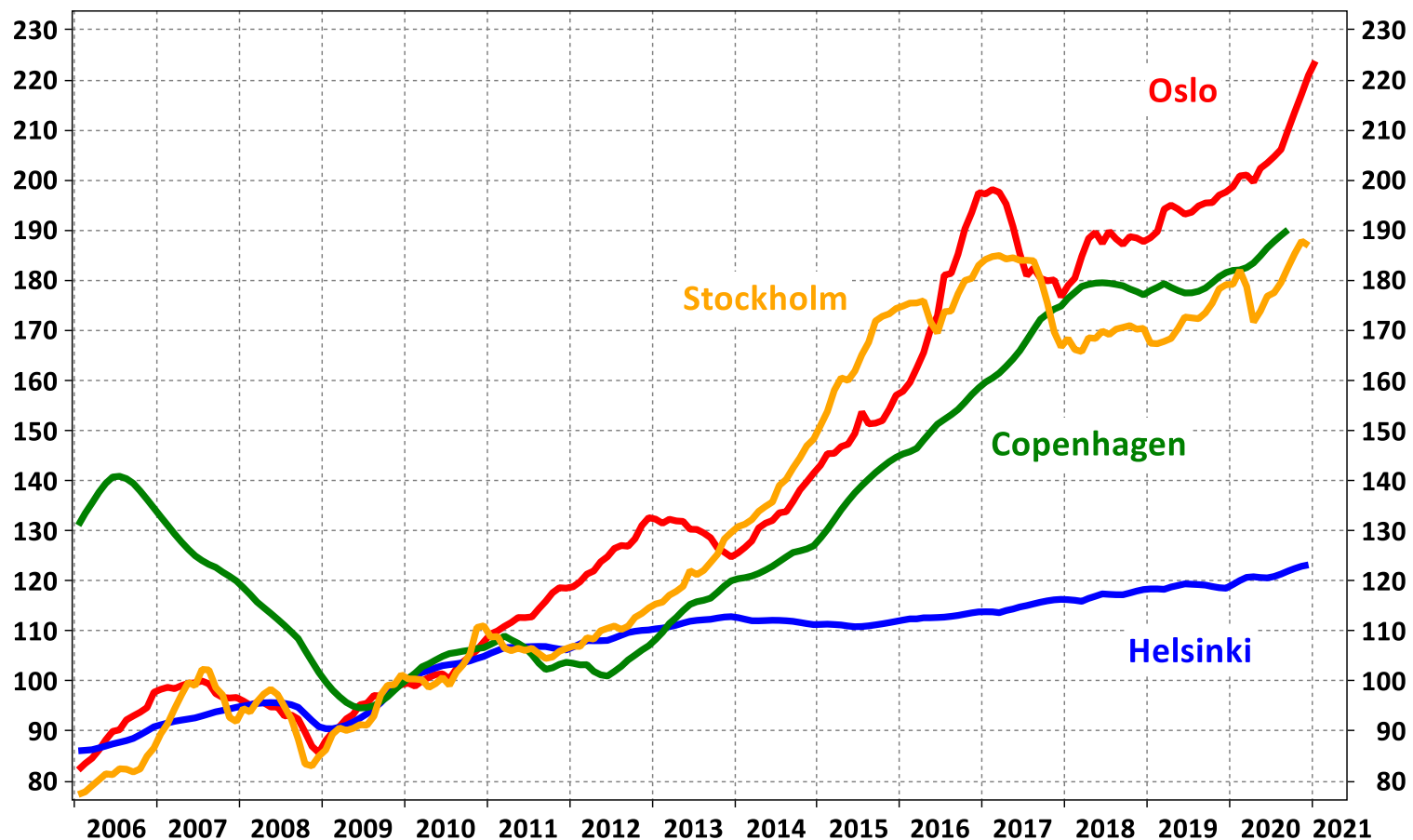


- ‘Hypo Regional Rating’ (‘Hypo-rating’) is a new rating for housing markets across Finland
 - Risks differ significantly between municipalities in Finland
- ‘Hypo-rating’ is a clear framework based on the key measures that make it possible to analyze housing market development across Finland
- Model includes variables such as housing prices, housing transactions, demographics, income growth, crime and distance to university hospitals
- Funding of housing loans is based on covered bonds
 - The model gives valuable information for credit rating institutions and institutional investors about different risks



Prices in Helsinki stable

2010 = 100, apartment prices, seasonally adjusted

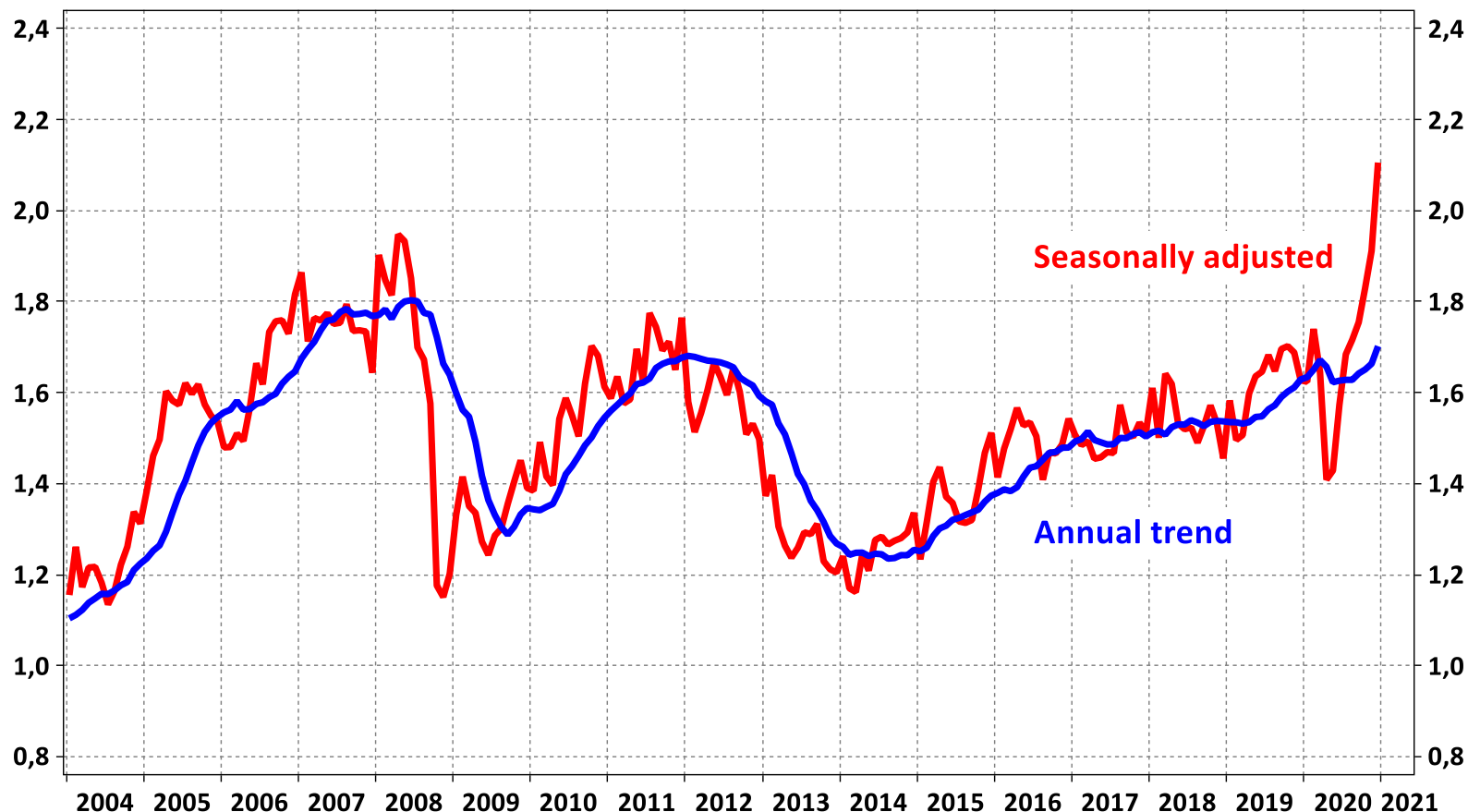


Source: Hypo, Macrobond

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Strong momentum in new drawdowns of housing loans

EUR billion



Source: Hypo, Macrobond

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Initial peak of interest-only period deals to customers – now over

billion eur, mortgage loan renegotiations per month



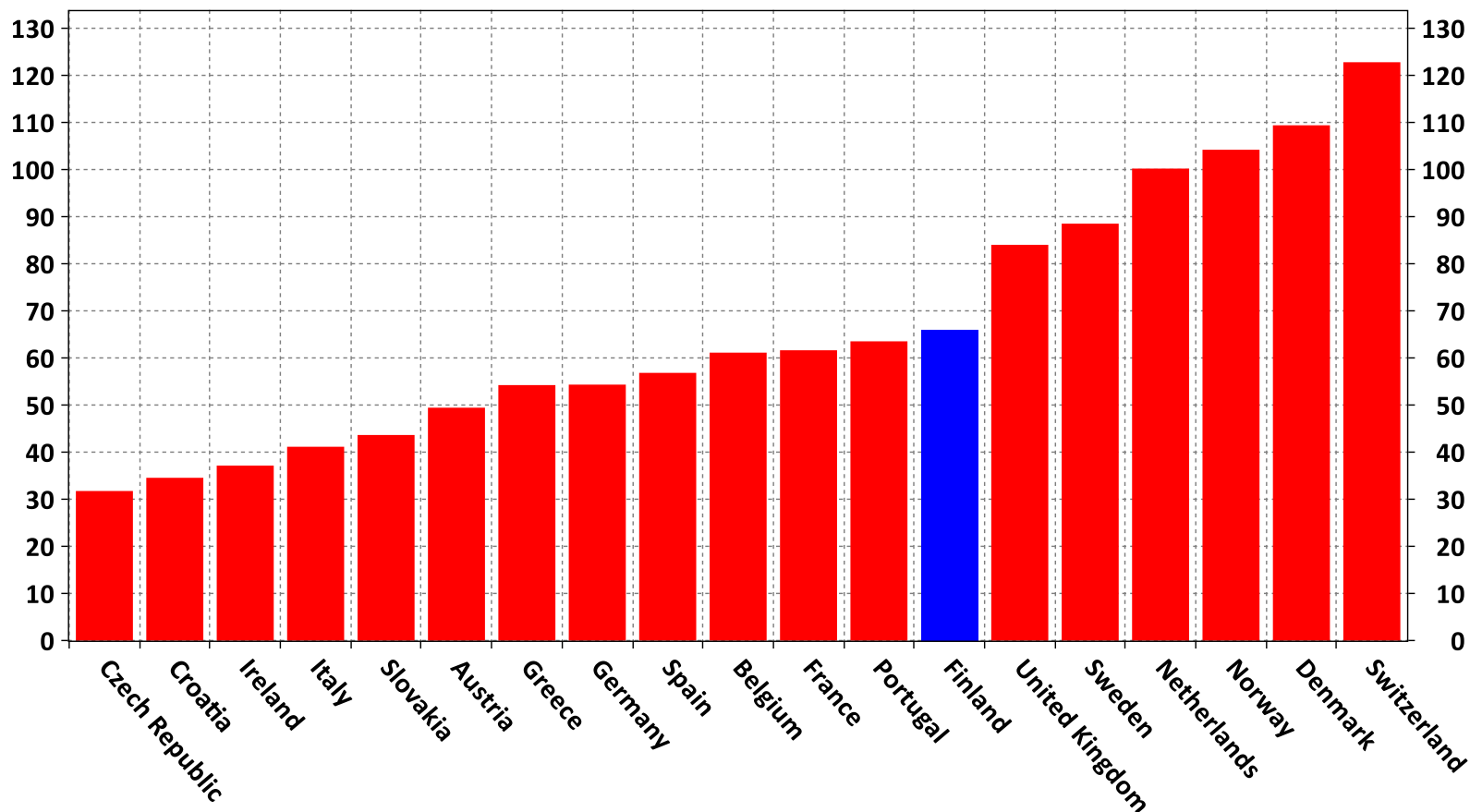
Source: Hypo, Macrobond

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Relatively little household debt



%, Household debt to GDP

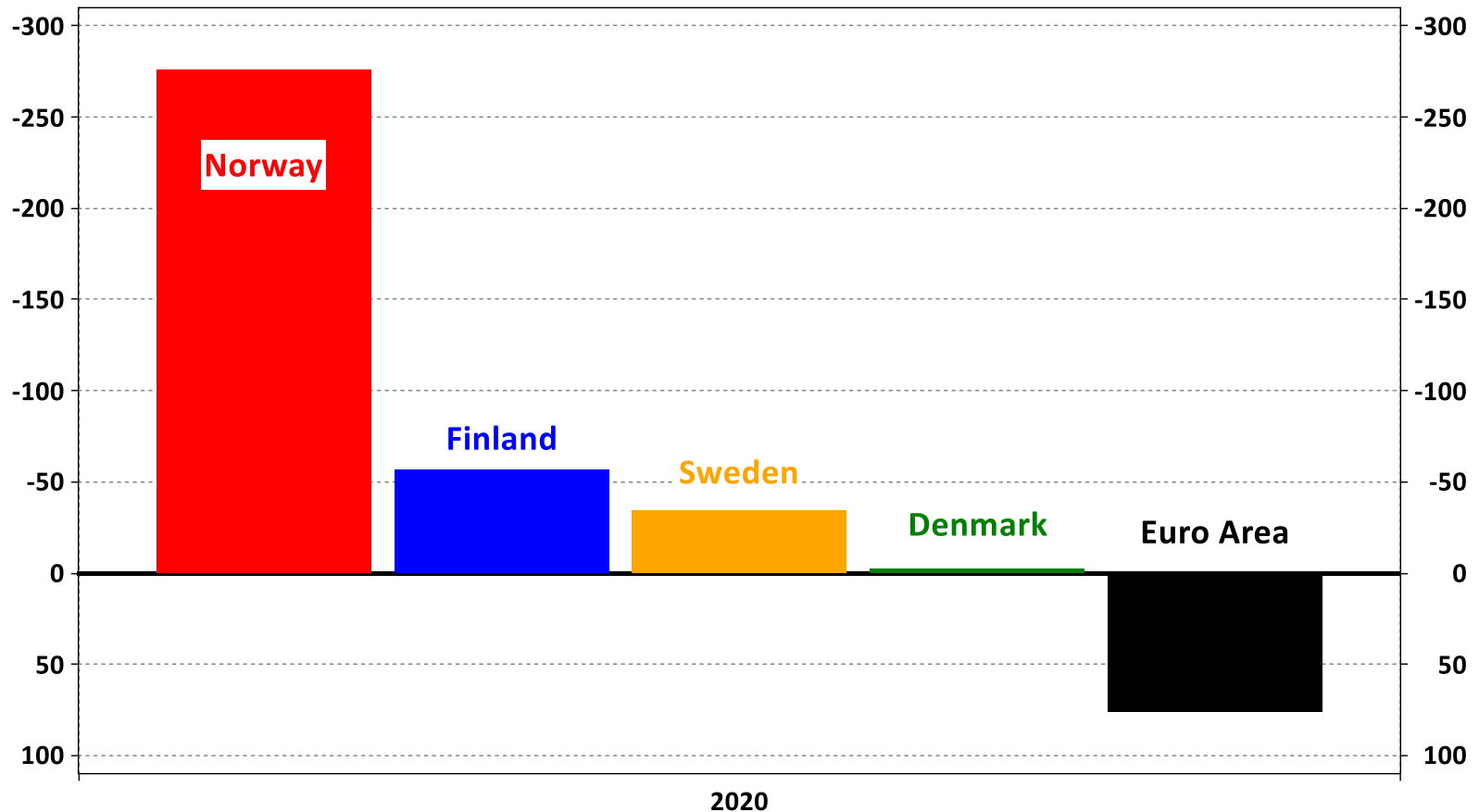


Source: Hypo, Macrobond

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Relatively little public sector debt

General Government Net Financial Liabilities, Percent of GDP, source: OECD

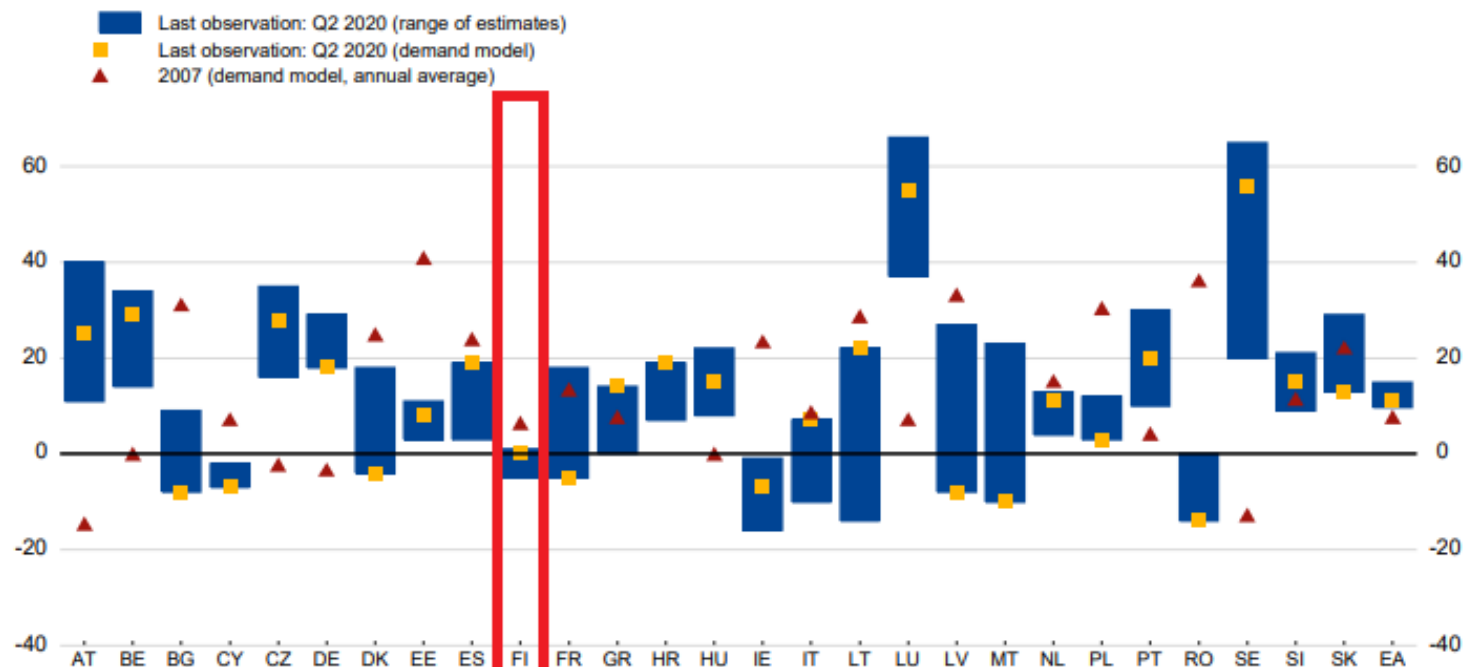


Source: Hypo, Macrobond

No housing bubble - in Finland

3.12 Over/undervaluation of residential property prices

(EU; percentages)



Sources: Eurostat, national sources, ECB and ECB calculations.

Notes: Estimates based on four different valuation methods: price-to-rent ratio, price-to-income ratio, asset pricing approach and a Bayesian estimated inverted demand model. For further details see Box 3, Financial Stability Review, ECB, June 2011; and box 3, Financial Stability Review, ECB, November 2015. For each country, the blue bars represent the range of estimates across the four valuation methods. Estimates are up to Q1 2020 for CY and DK and up to Q2 2020 for all the other countries.

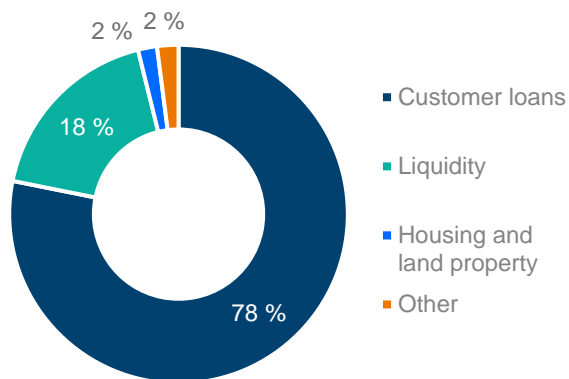
Financial Results



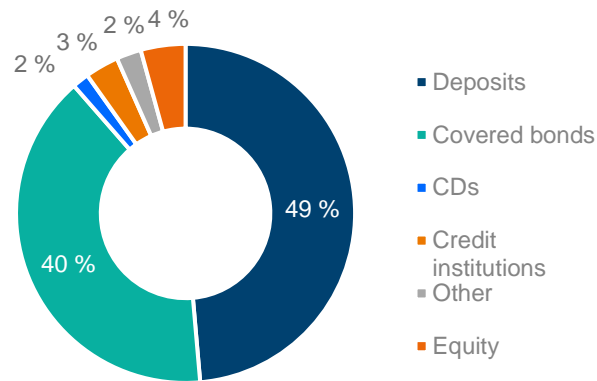
Strong Balance Sheet



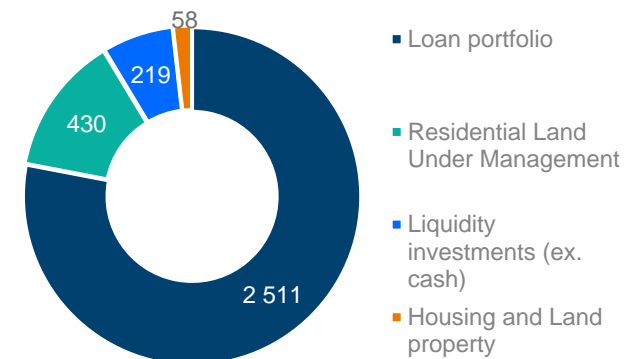
Total Assets



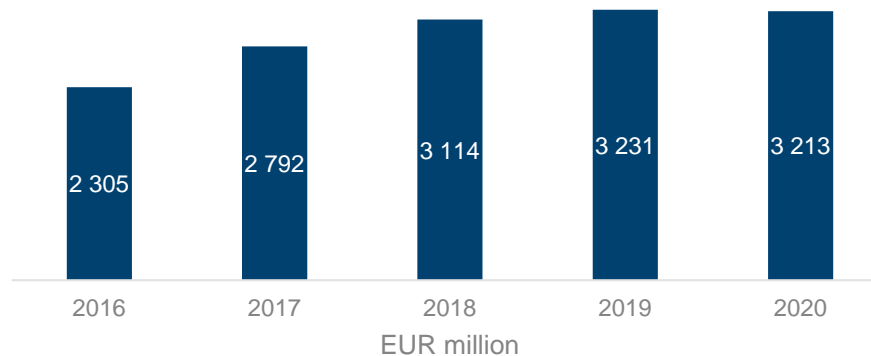
Liabilities and Equity



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

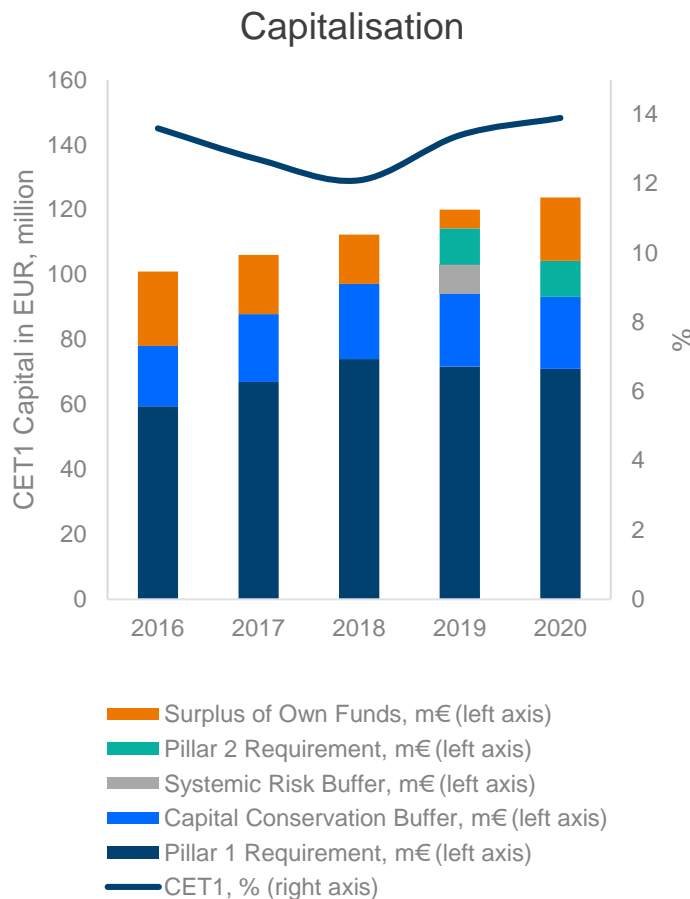


Balance Sheet Total



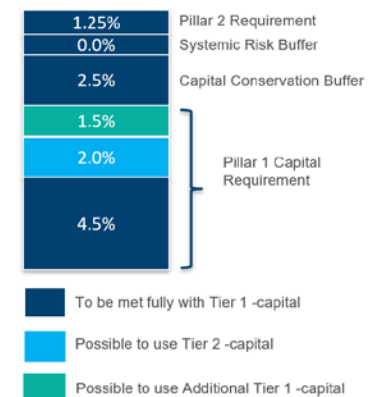
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Solid Capital Basel III Standard Approach



- Mutual company: all profits are retained and added to the core capital
- S&P's Risk Adjusted Capital 17.76% on 30.6.2020
- Total Capital Ratio 13.9%, all CET1
- EUR 19.5 million of excess capital after

Pillar 1 Capital Requirement	8.00%
Capital Conservation Buffer	2.50%
Systemic Risk Buffer	0.00%
<ul style="list-style-type: none"> 0% from 6.4.2020 onwards 	
Pillar 2 Requirement	1.25%
<ul style="list-style-type: none"> Entered into force on 31.12.2019 	
→ Total Capital Requirement	11.75%



- EUR 4.9 million of hidden reserves in housing property (not marked-to-market) and EUR 5.1 million of surplus in Pension Fund
 - Inclusion into CET1 would raise the ratio to 14.9%
- Basel III standardized approach risk weights
 - Lending with residential collateral: 35% risk weight
 - Housing and land investments: 100% risk weight

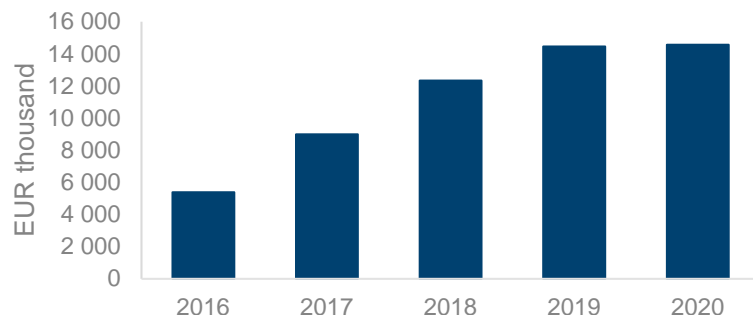
Group Income Statement



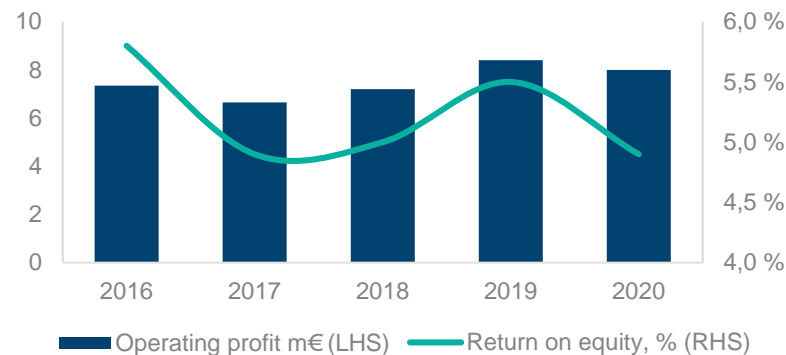
(EUR 1,000)	2020	2019	2018	2017
Net Interest Income	14,562	14,452	12,331	8,991
Net Fee and Commission Income	3,675	3,562	3,795	3,525
Total Other Income	4,236	2,689	2,097	5,190
Total expenses	-14,429	- 12,296	- 11,058	-11,055
Operating Profit	8,044	8,407	7,165	6,651

- In 2020, Net Interest Income continued to grow to EUR 14.6 million due to lower funding costs and the growth of other interest income
- Hypo Group's operating profit slightly decreased to EUR 8.0 million in 2020
- Net Fee and Commission Income totaled EUR 3.7 million in 2020
- Total other income (incl. treasury operations and housing and residential land) amounted to EUR 4.2 million in 2020
- Total expenses totaled EUR 14.4 million in 2020
 - The largest single expense item was the yearly contribution to the Single Resolution Fund which grew by more than 80% from 2019

Net Interest Income



Profitability



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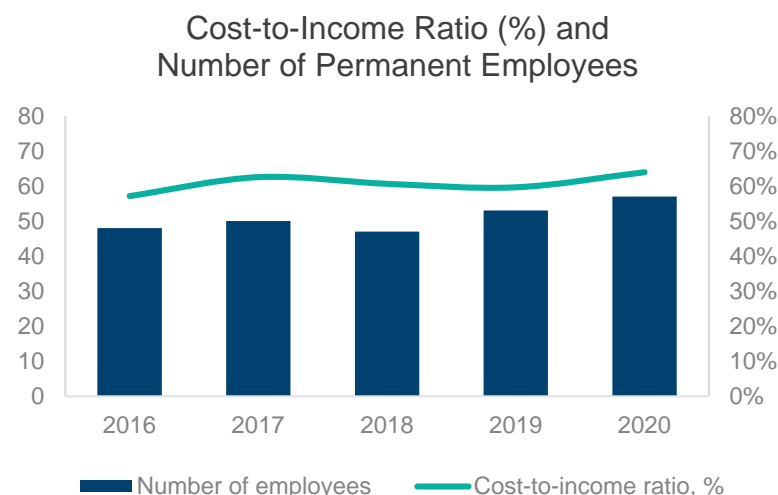
Group Key Financial Figures



	2020	2019	2018	2017
Return on Equity (ROE), %	4.9	5.5	5.0	4.9
Common Equity Tier 1 (CET1), %	13.9	13.4	12.1	12.7
Cost-to-income, %	63.9	59.6	60.6	62.5
Non-performing loans (NPL), %	0.11	0.10	0.07	0.14
Loan to value (LTV), %	33.8	35.3	35.8	37.4
Loans / deposits, %	160.7	158.8	150.7	143.6
Loan portfolio total (m€)	2,511	2,586	2,589	2,213
Balance sheet total (m€)	3,213	3,231	3,114	2,792

- Cost-to-income ratio was 63.9% in 2020 (59.6% in 2019)

- Total assets were EUR 3.2 billion and loan portfolio EUR 2.5 billion in 2020
- In 2020 CET1 ratio was 13.9% (13.4% in 2019) and equity amounted to EUR 136.9 million (129.8 million in 2019)
- Group's financial position remained stable throughout the period
- Strong credit profile with both very low NPLs and LTV's



Hypo's Loan Book

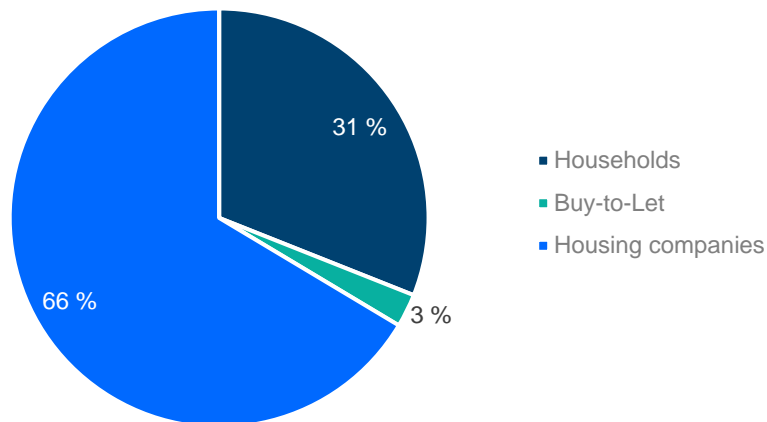


Loan Book Overview

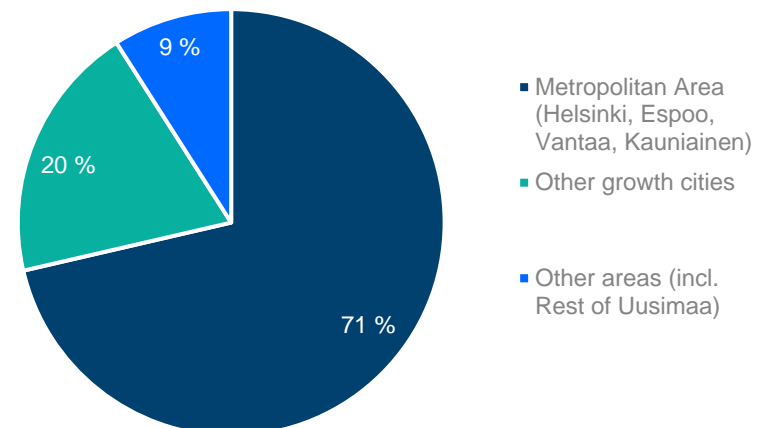


- Hypo's loan book is EUR 2,511 million
- Mortgage loans secured by residential property
- Collateral requirement is set in the Finnish Act on Mortgage Societies
- Two main customer groups
 1. Households: home mortgage, buy-to-let
 2. Housing companies: renovation loans

Lending by Customer Type



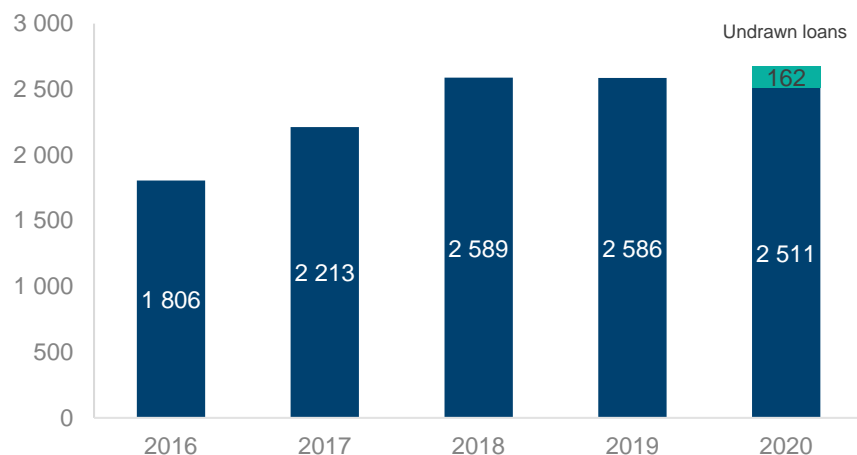
Loan Book by Customer Domicile



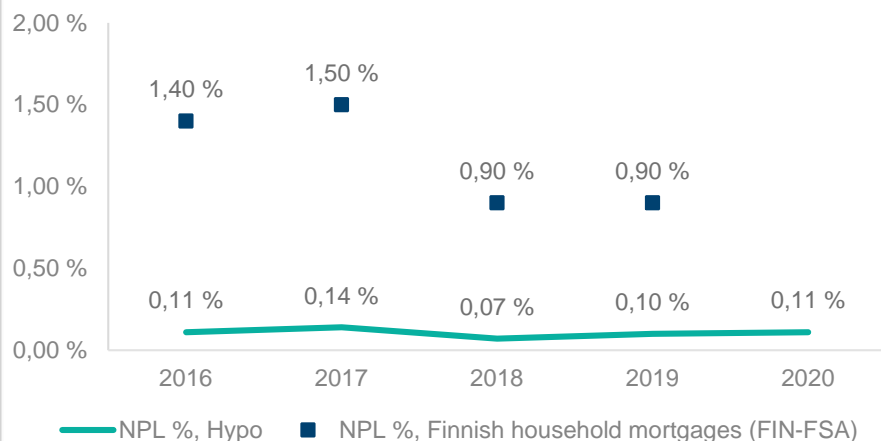
Loan Book Quality Excellent



Hypo Loan Book Total, m€



Non-performing Loans (%)



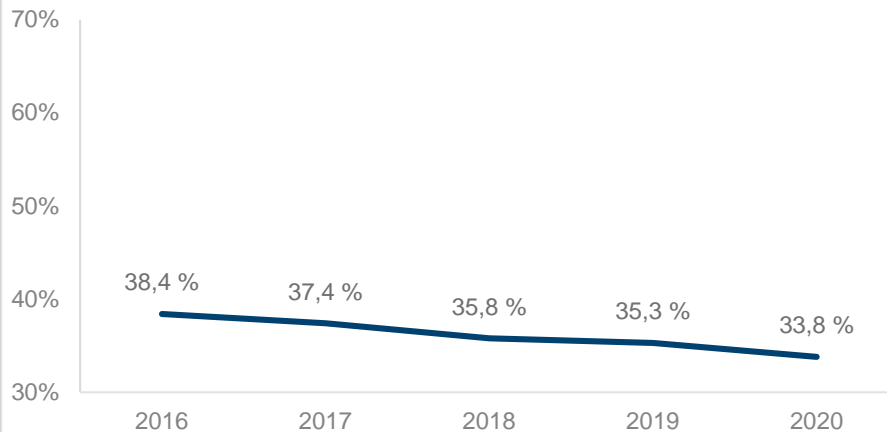
- The loan book decreased slightly to EUR 2,511 million in 2020 (EUR 2,586 in 2019) due to the sale of certain parts of the loan book
- Currently EUR 162 million undrawn loans
- All lending is against residential collateral
- Only EUR denominated lending
- All collateral is located in Finland
- Strategic concentration in the Helsinki Metropolitan Area and other specified growth areas
- Non-performing loans remained very low at 0.11% of total loans
- The quality of the loan book is well above the Finnish household mortgage average NPLs

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Loan Book Securely Collateralised

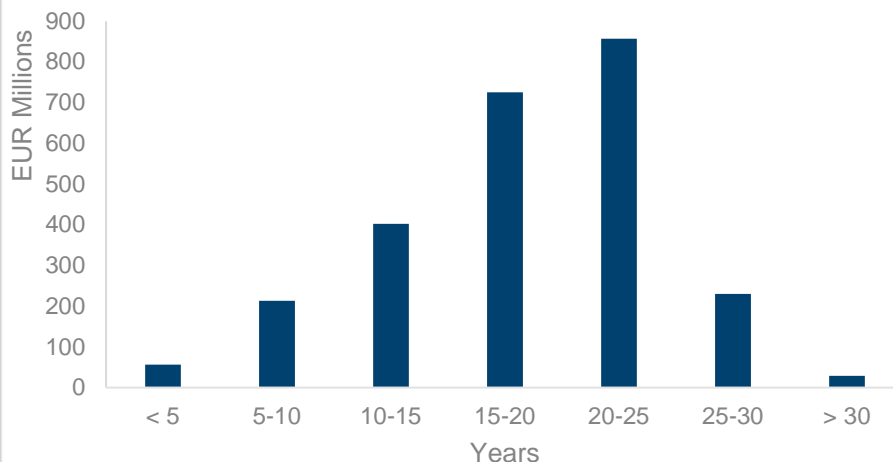


Hypo Loan Book Average LTV



- Low LTV combined with conservative collateral valuation makes Hypo's loan book very strong even in times of stress
- Hypo's loan portfolio is entirely secured by residential property
- The average LTV (loan-to-value) is 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 densely populated Helsinki Metropolitan Area

Loan Book by Remaining Maturity (years)



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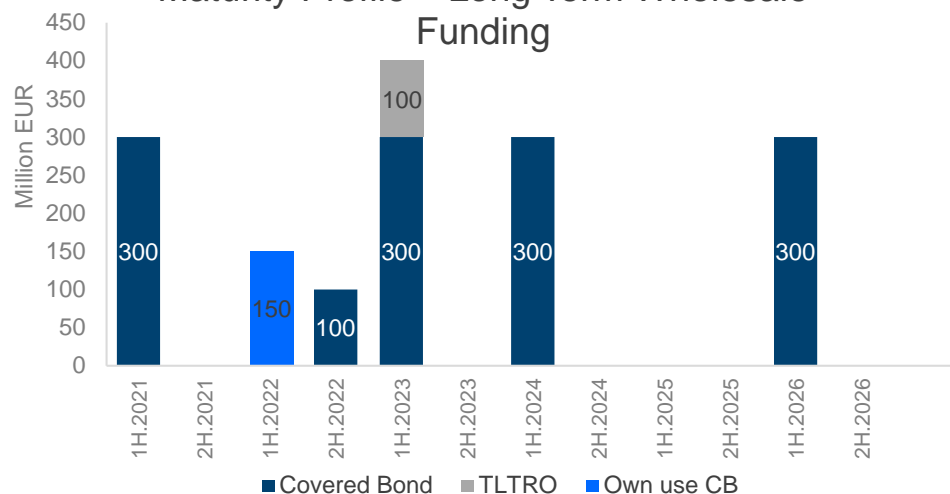
Funding and Liquidity



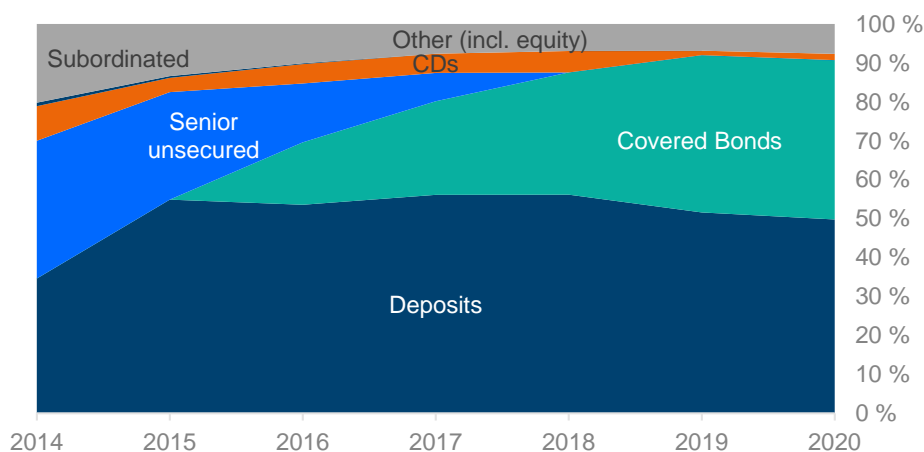
Diversified Funding Profile



Maturity Profile – Long Term Wholesale Funding



Funding Structure



- Covered bond program was 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 programmes
- Deposit funding collected through 100% subsidiary bank "Suomen AsuntoHypoPankki"
- Other funding sources
 - Domestic Commercial Deposit programme
 - ECB repo counterparty
 - Bilateral loans (e.g. NIB green funding cooperation)
- Deposits through the AsuntoHypoPankki subsidiary form currently ~50% of total funding
- Covered bonds currently ~41% of total funding
- Domestic CD program supports short term funding needs

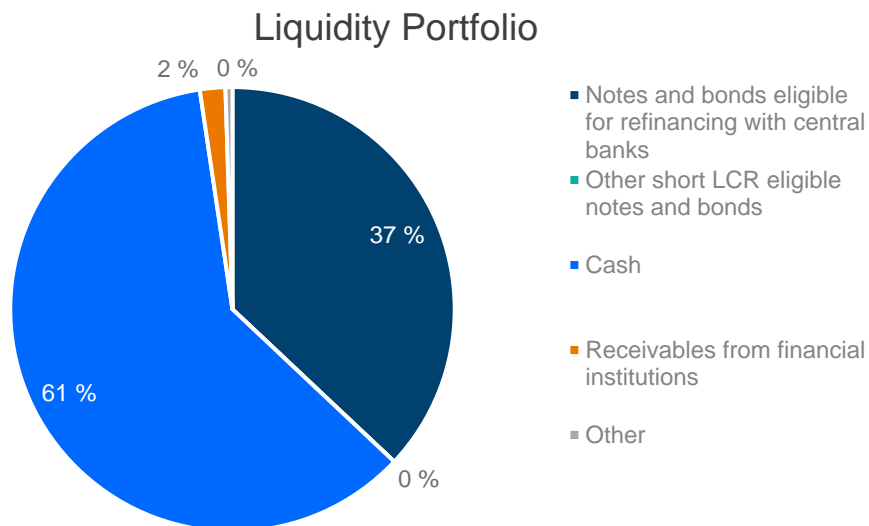
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Solid Liquidity Position



Liquidity portfolio EUR 590.7 million as of 30.12.2020

- Equaling 18.4% 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 programmes support liquidity
- LCR 194.5% (163.8% in 2019)
- Liquidity covers wholesale funding cash flows for the following 26 months.



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Covered Bonds



Hypo Covered Bonds

Executive Summary – 31.12.2020



- Issuer is the Group parent, no separate covered bond issuer
- Hypo is a member of ECBC
- Covered bonds rated 'AAA' (stable*) by the S&P
- Cover pool consists 100% of Finnish residential property
 - Regulatory risk weight of pool assets 35% (Basel III standard method)
 - All collateral located in selected prime growth centers
- Total amount outstanding EUR 1,450 million
- Current WALTV 32.1%
- Current nominal overcollateralization 33.1%
 - Commitment to keep the OC all times at a level commensurate with a 'AAA' rating from S&P Global Ratings
 - Legally binding OC requirement: 2% of the net present value
- Hedging agreements in place to mitigate the interest rate risk

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

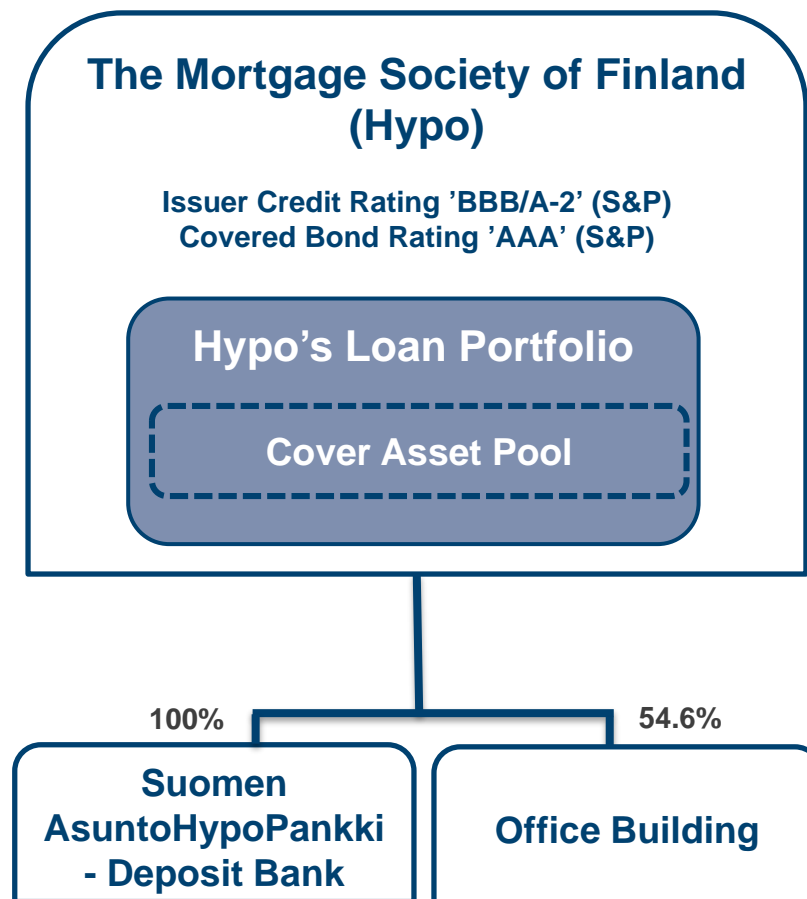
*Outlook revised from negative to stable on January 29, 2021.

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Simple Structure, High Transparency



- Covered bonds issued directly from Hypo's balance sheet
 - Issuer the group parent Hypo
 - No separate covered bond entity
 - The assets are segregated by the covered bond register
- Issuer Credit Rating 'BBB/A-2' (stable*)
- Covered Bond Rating 'AAA' (stable*)



*outlook revised from negative to stable on Jan 22, 2021 for issuer and on Jan 29, 2021 for covered bonds.

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Cover Asset Pool



Eligibility Criteria for the Cover Pool



Origination	<ul style="list-style-type: none"> ▪ Issuer the Mortgage Society of Finland (Hypo) ▪ Only mortgage loans originated by Hypo
Assets Categories	<ul style="list-style-type: none"> ▪ 100% Finnish residential assets <ul style="list-style-type: none"> ▪ Retail mortgages ▪ Housing company residential mortgages (joint liability between multiple individuals)
Customer Credit Quality	<ul style="list-style-type: none"> ▪ No arrears (>30 days) ▪ No negative credit history ▪ Over 65% of the pool loans have the best internal credit class 'A'
Collateral	<ul style="list-style-type: none"> ▪ Maximum LTV limit 70% ▪ Current Pool WALTV 32.1% ▪ Finnish residential collateral, located in prime growth centers ▪ Collateral valuations updated quarterly ▪ Commitment to keep OC all times at the level commensurate with S&P rating 'AAA'
Type of Properties	<ul style="list-style-type: none"> ▪ Primary residences ▪ Limited liability housing companies (multiple individuals)
Type of Products	<ul style="list-style-type: none"> ▪ Principal repayment mortgages <ul style="list-style-type: none"> ▪ 99% floating interest rate ▪ No revolving/flexible loans

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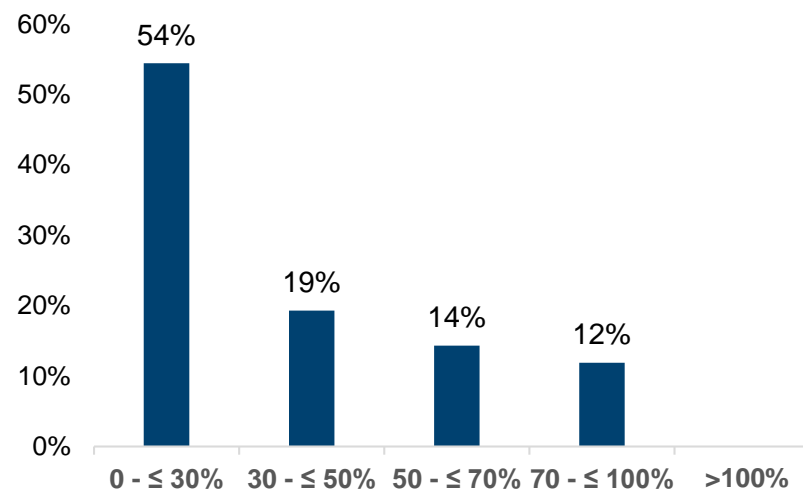
Cover Asset Pool Data (1/3)



Pool Data as at 31.12.2020

Total Cover Pool (nominal)	EUR 1,930,092,895
Eligible Cover Pool	EUR 1,901,252,285
Average Loan Balance	EUR 207,805
Number of loans	9,288
Number of properties	7,773
Number of clients	9,199
WA seasoning (months)	45
WA remaining term (months)	226
WA LTV (indexed)	31.3%
WA LTV total (indexed)	32.1%
Interest	Variable 99% Fixed 1%
Loans in arrears (>30 days)	0.00%
OC level (nominal)	33.1%
OC level (eligible)	31.1%
Pool Type	Dynamic

LTV Distribution



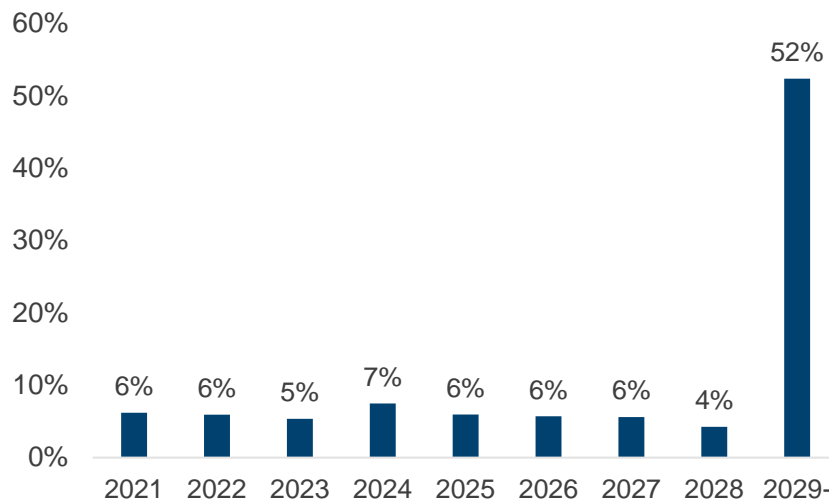
- The weighted average indexed LTV of the pool is 32.1%
- No non-performing loans in the cover pool
- No arrears
- Well-seasoned mortgage cover pool

SECURE WAY FOR BETTER LIVING.

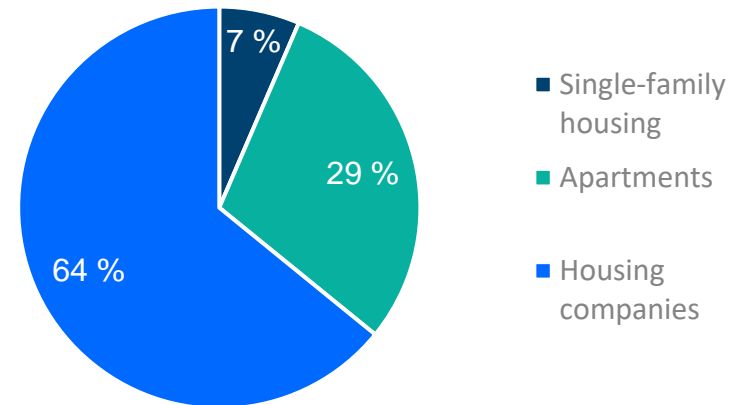
Cover Asset Pool Data (2/3)



Pool Loan Maturity Profile Contractual Amortizations



Pool Collateral Types



- Balanced pool composition: 36% of retail mortgages and 64% of housing company residential mortgages
- All loans with contractual repayment schedule
- Stable amortization profile
- No public sector loans in the pool
- Currently no substitute assets in the pool

SECURE WAY FOR BETTER LIVING.

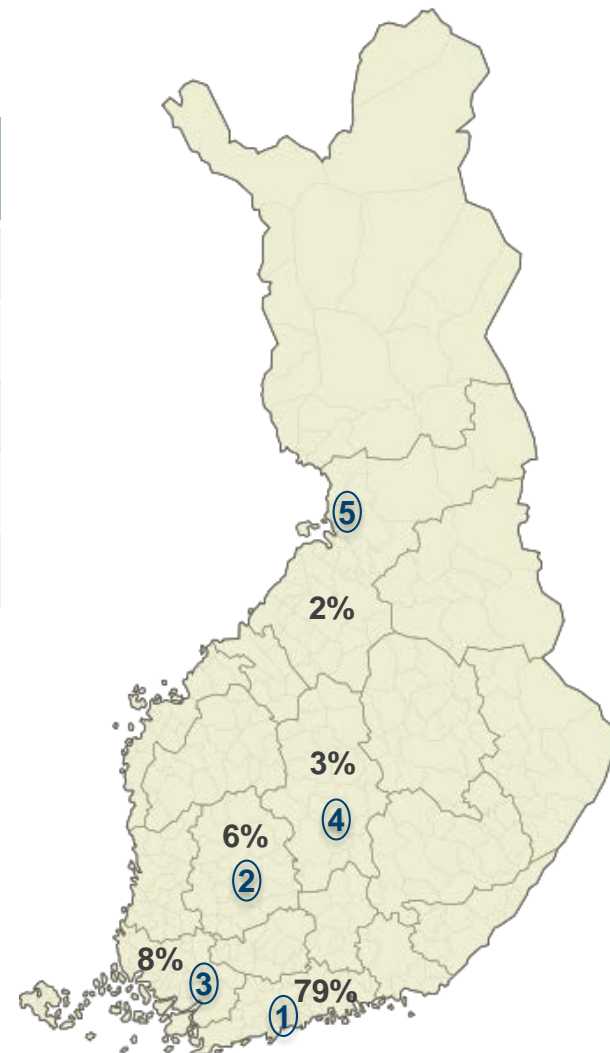
Cover Asset Pool Data (3/3)



Geographical Distribution as at 31.12.2020

	Region	Major City	Share of the Pool
1	Uusimaa	Helsinki	79%
2	Pirkanmaa	Tampere	6%
3	Varsinais-Suomi	Turku	8%
4	Central Finland	Jyväskylä	3%
5	North Ostrobothnia	Oulu	2%

Hypo's strategic choice is to operate only in prime growth centers.

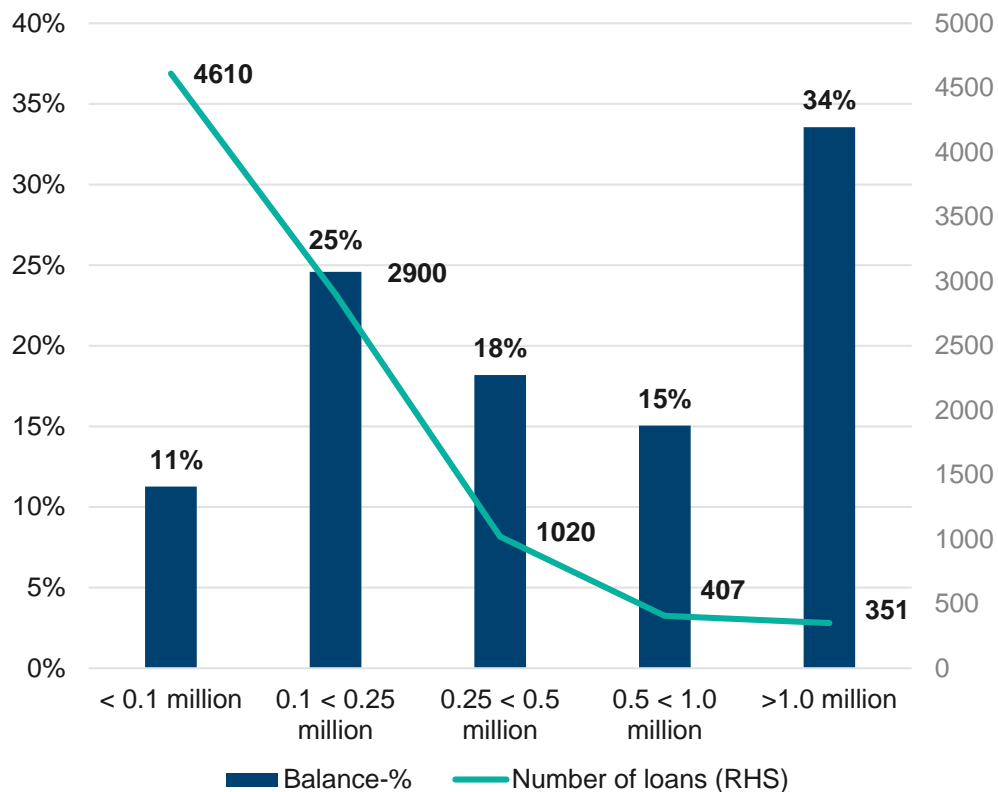


SECURE WAY FOR BETTER LIVING.

Cover Pool Loan Size Distribution



Loan Size Distribution: Share and Number of Loans



- 36% of the loans in the pool have a remaining balance below EUR 250,000
- Loans with a remaining balance > 1 million are housing company loans (= common debt between multiple individuals)
- Loans with a remaining balance < 5,000 are excluded from the cover pool

Cover Asset Pool Stress Test



Pool Resilient to House Price Decline

LTV	House price decline 0%	House price decline 10%	House price decline 20%	House price decline 30%	House price decline 40%
0- ≤ 40%	1,276	1,193	1,114	1,003	873
40- ≤ 70%	424	404	392	406	430
70- ≤100%	230	301	324	291	257
>100%		31	101	230	370
Pool total (nominal), EUR million	1,930	1,898	1,830	1,700	1,560
OC (nominal)	33.1%	30.9%	26.2%	17.3%	7.6%

- The stress test assumes that no action is taken to include new loans into the pool.
- Even in an extreme stress scenario, where house prices decline by 40% overnight, the pool total still exceeds EUR 1,450 million (the total outstanding amount of bonds).

Outlook



Future Outlook



“In the 1st quarter the coronavirus dampens economic situation significantly. There is substantial uncertainty regarding the economic and employment development in 2021 due to the disease. Housing markets in the growth centers remain strong even during the pandemic. Urbanization continues, albeit at a slower pace for a while. Ability to recover from the economic crisis varies widely across different areas in Finland with the Helsinki region among the strongest. Low interest rates, institutional investors and subsidized building support newbuilding activity to stay relatively stable. Housing loan demand remains strong in the growth centers.

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 rise following the increase of net interest and net fee income. Capital adequacy continues to strengthen.

The operating profit for 2021 is expected to be on the same level or slightly smaller than in 2020. The expectation contains uncertainties due to the development in economy and interest rates as well as the coronavirus pandemic.”



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