

# Hypo Investor Update 4Q2021

Debt Investor Presentation



Published on February 1, 2022

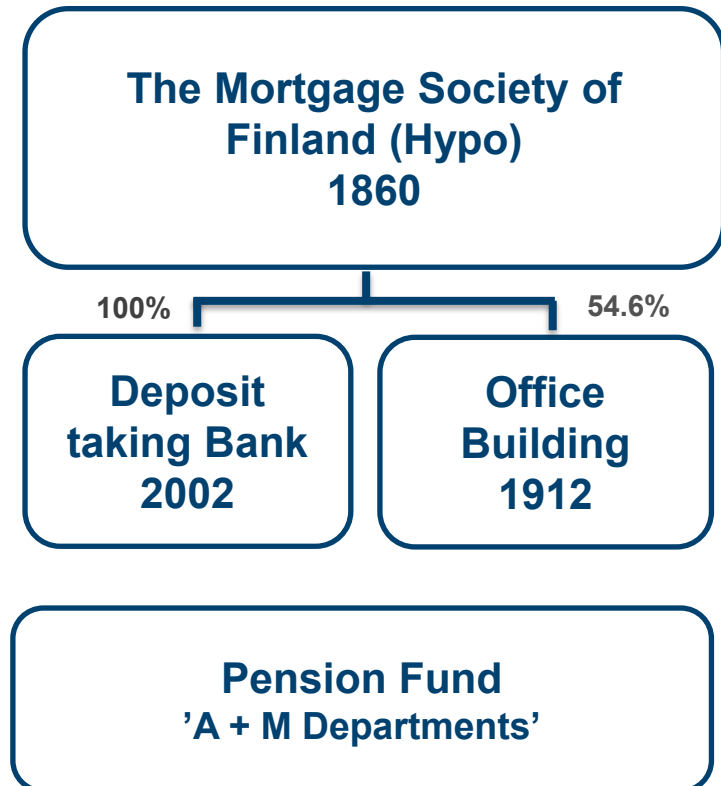


**Secure Way for Better Living**

# 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 0.14% (as at 4Q21)
- Total assets EUR 3.3 billion (as at 4Q21)
- 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



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



## Anchor Rating for Finnish Commercial Banks

a-

### 1. Hypo business position

-2

- Monoline profile as a pure residential mortgage financier in Finland
- Expectation of continued business stability partly offsets concentrated business profile

### 2. Hypo capital and earnings

+2

- Very strong risk-adjusted capitalization (RAC)
- Profit retention as a Mutual company, profits solely used for capital build-up

### 3. Hypo risk position

-1

- Strong asset quality and exceptional loan-loss track record in the past decades
- Very conservative lending and underwriting standards with a focus on urban areas
- Concentration and cyclical risk in the lending book

### 4. Hypo liquidity and funding

-1

- Matched funding profile but elevated dependence on wholesale funding
- Issuance of covered bonds leads to a well-matched funding profile
- Less stable deposit base than domestic peers

## Hypo Credit Rating

**BBB (stable)**

# Hypo Leading the Debate on Finnish Mortgage Market



Hypon Ari Pauna täräyttää ja puhuu pakosta: "Pankkien ja kuntien määristä ainakin nolla pois"

15.4.2021 04:30 [PANKIT](#) [FINANSSI](#) [TILINPÄÄTÖS](#)



**Yltärintaa.** Hypon toimitusjohtaja Ari Pauna arvelee, että Suomi tulisi toimia kertaaluokkaa pienemmällä määrällä kuntia ja pankkeja.

**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 main  
harmittaa asuntora

**H**ypoteekkiyhdistys Ari Pauna on pöytävi-  
ssään puolesta asun-  
to- ja vuokra-  
markkinoiden  
kirkastamista. Taloyhtiö-  
jä ja vuokra-  
markkinoiden  
kirkastaminen on  
välttämätöntä, ja se  
on Hypoteekkiyhdistyksen  
tavoitteena.

Piskuinen  
tarkkuus  
jota muu



**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](#)



**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

Talouskasvu hyytyy - Hypo ennustaa Suomen käyvän taantumassa loppuvuonna

30.8.2019 05:00 | päivitetty 30.8.2019 11:40 [KANSANTALOUS](#) [ASUMINEN](#) [POLITIikka](#)



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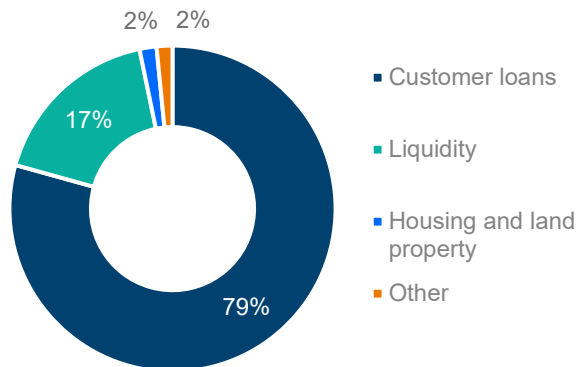
# Financial Results



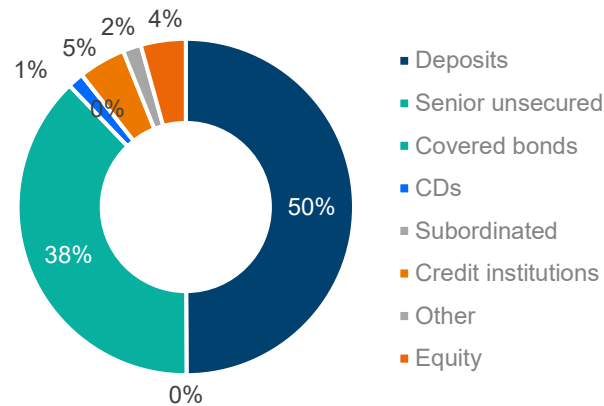
# Strong Balance Sheet



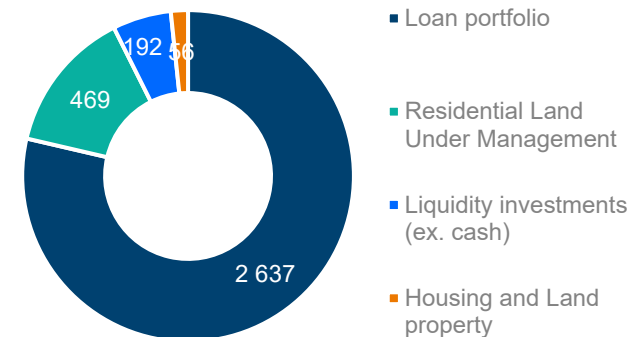
Total Assets



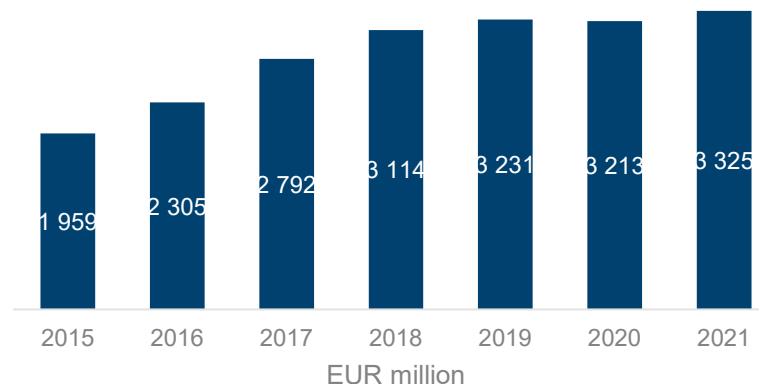
Liabilities and Equity



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

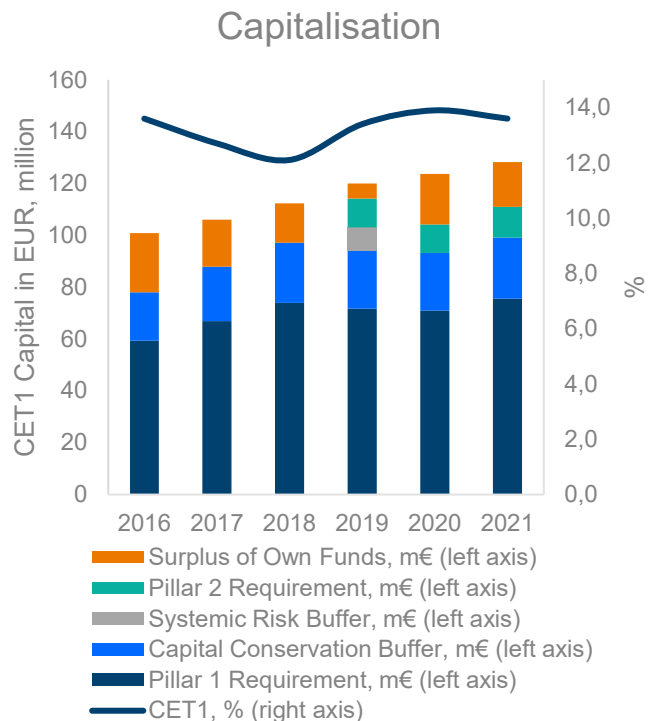


Balance Sheet Total



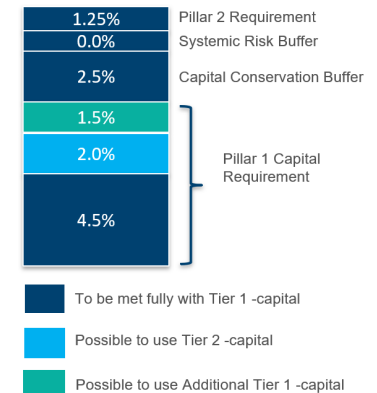
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# Solid Capital Basel III Standard Approach



- Mutual company: all profits are retained and added to the core capital
- S&P's Risk Adjusted Capital 17.0% on 30.6.2021
- Total Capital Ratio 13.6%, all CET1 (as at 2021)
- EUR 17.3 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"> <li>0% from 6.4.2020 onwards</li> </ul>	
Pillar 2 Requirement	1.25%
<ul style="list-style-type: none"> <li>Entered into force on 31.12.2019</li> </ul>	
→ Total Capital Requirement	11.75%



- EUR 4.7 million of hidden reserves in housing property (not marked-to-market) and EUR 4.9 million of surplus in Pension Fund
  - Inclusion into CET1 would raise the ratio to 14.4%
- Basel III standardized approach risk weights
  - Lending with residential collateral: 35% risk weight
  - Housing and land investments: 100% risk weight

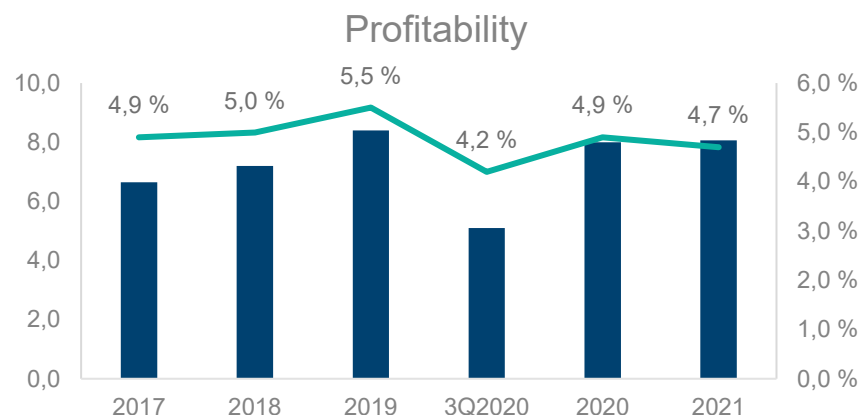
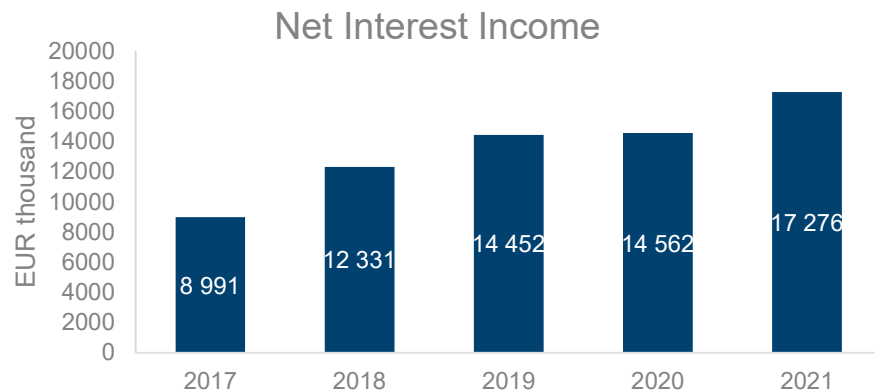


# Group Income Statement



(EUR 1,000)	2021	2020	2019	2018
<b>Net Interest Income</b>	17,276	14,562	14,452	12,331
<b>Net Fee and Commission Income</b>	4,077	3,675	3,562	3,795
<b>Total Other Income</b>	4,734	4,236	2,689	2,097
<b>Total expenses</b>	-18,023	-14,429	- 12,296	- 11,058
<b>Operating Profit</b>	<b>8,064</b>	<b>8,044</b>	<b>8,407</b>	<b>7,165</b>

- In 2021, net interest income continued to grow to EUR 17.3 million due to lower funding costs and the growth of other interest income
- Hypo Group's operating profit grew to EUR 8.1 million in 2021
- Net Fee and Commission Income totaled EUR 4.1 million in 2021
- Total other income (incl. treasury operations and housing and residential land) amounted to EUR 4.7 million in 2021
- Total expenses totaled EUR 18.0 million in 2021



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

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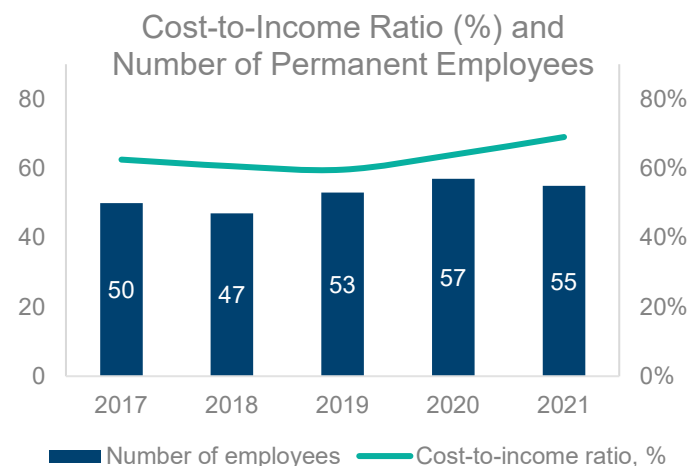
# Group Key Financial Figures



	2021	2020	2019	2018
<b>Return on Equity (ROE), %</b>	4.7	4.9	5.5	5.0
<b>Common Equity Tier 1 (CET1), %</b>	13.6	13.9	13.4	12.1
<b>Cost-to-income, %</b>	69.0	63.9	59.6	60.6
<b>Non-performing loans (NPL), %</b>	0.14	0.11	0.10	0.07
<b>Loan to value (LTV), %</b>	33.1	33.8	35.3	35.8
<b>Loans / deposits, %</b>	158.8	160.7	158.8	150.7
<b>Loan portfolio total (m€)</b>	2,637	2,511	2,586	2,589
<b>Balance sheet total (m€)</b>	3,325	3,213	3,231	3,114

- Cost-to-income ratio was 69.0% in 2021 (63.9% as at ye2020)

- Total assets were EUR 3.3 billion and loan portfolio EUR 2.6 billion in 2021
- In 2021 CET1 ratio was 13.6% (13.9% as at ye2020) and equity amounted to EUR 143.7 million (136.9 million as at ye2020)
- Group's financial position remained stable throughout the period
- Strong credit profile with both very low NPLs and LTV's



# Hypo's Loan Book

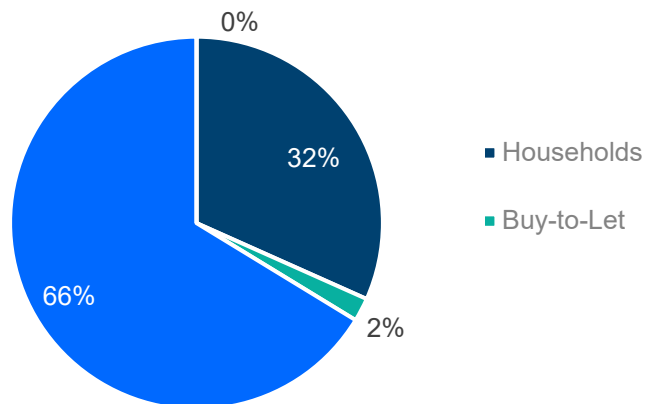


# Loan Book Overview

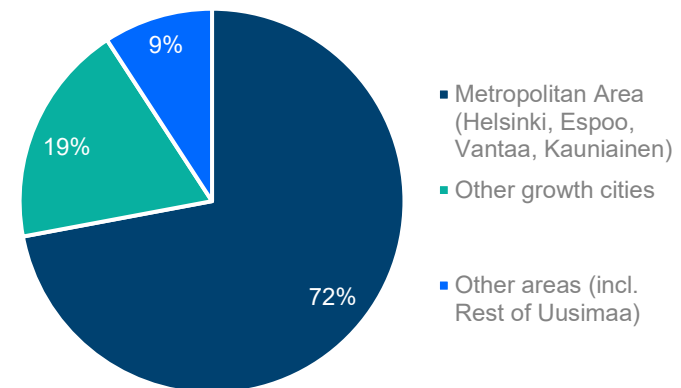


- Hypo's loan book is EUR 2,637 million
- Mortgage loans secured by residential property
- Collateral requirement is set in the Finnish Act on Mortgage Societies
- Two main customer groups
  1. Households: home mortgage, buy-to-let
  2. Housing companies: renovation loans

Lending by Customer Type



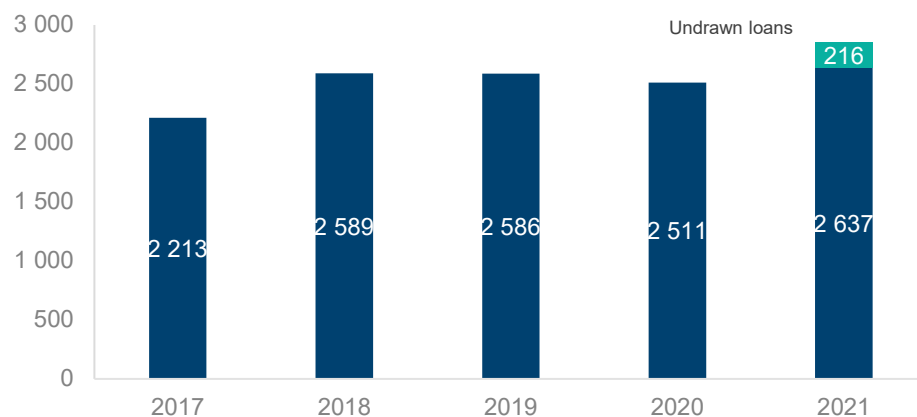
Loan Book by Customer Domicile



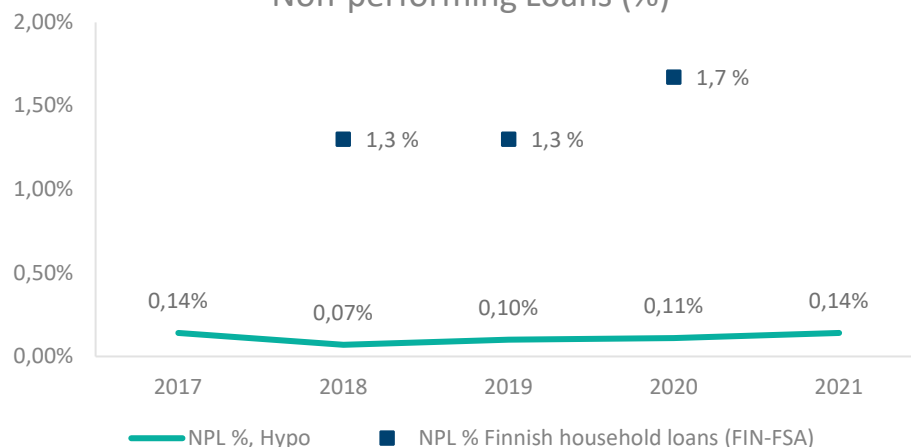
# Loan Book Quality Excellent



Hypo Loan Book Total, m€



Non-performing Loans (%)



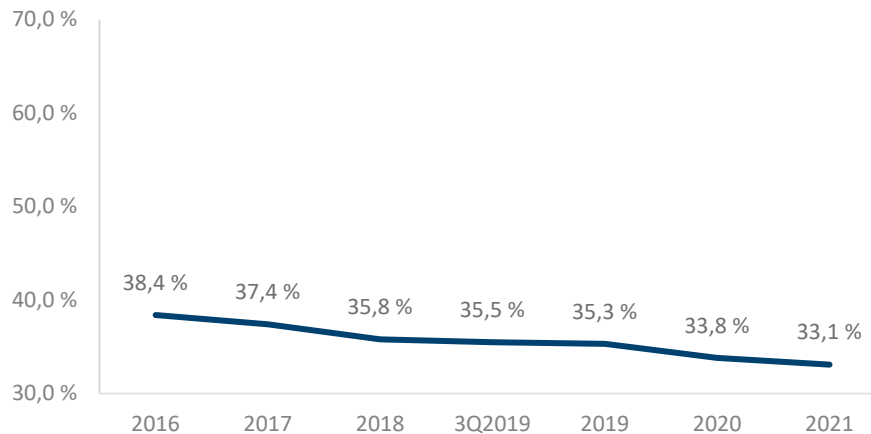
- The loan book grew to EUR 2,637 million in 2021
- Currently EUR 216 million undrawn loans
- All lending is against residential collateral
- Only EUR denominated lending
- All collateral is located in Finland
- Strategic concentration in the Helsinki Metropolitan Area and other specified growth areas
- Non-performing loans remained very low at 0.14% of total loans
- The quality of the loan book is well above the Finnish household loans' average NPLs

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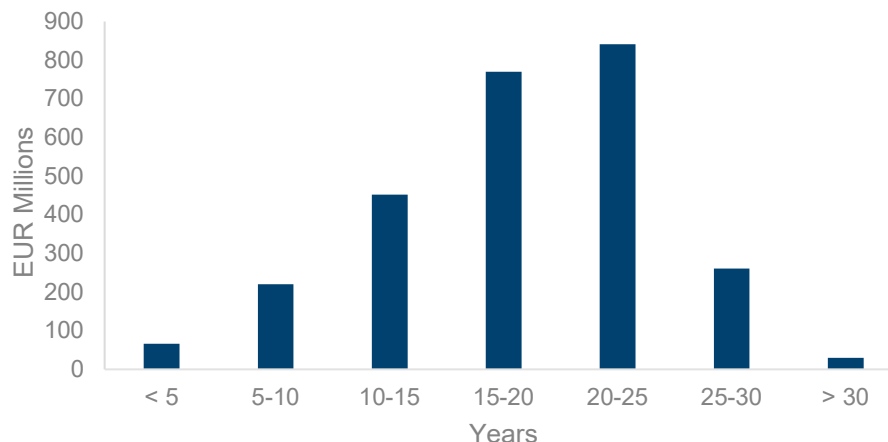
# Loan Book Securely Collateralised



Hypo Loan Book Average LTV



Loan Book by Remaining Maturity (years)



- 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 33.1%
- 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 19.8 years
- Financed properties are mainly located in the densely populated Helsinki Metropolitan Area

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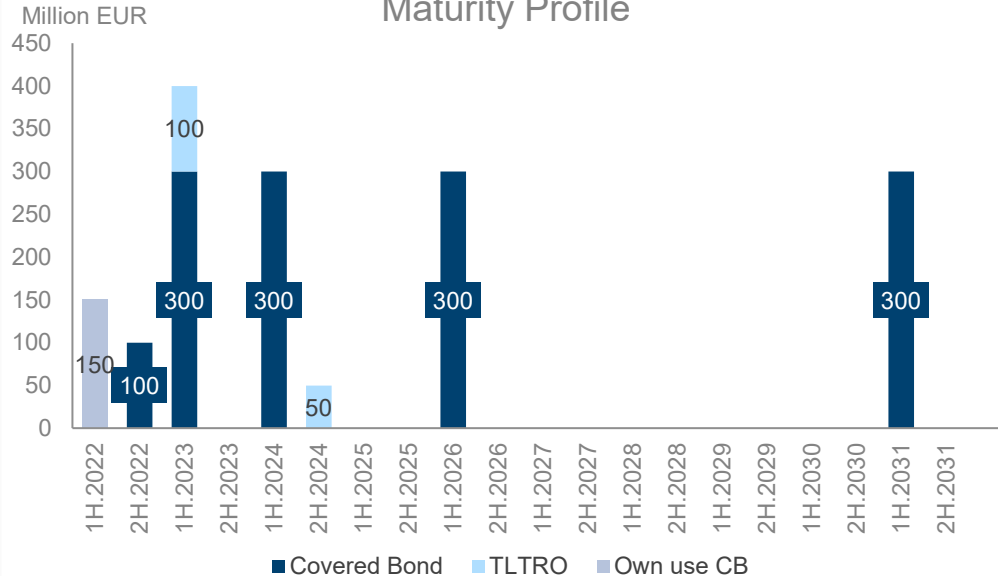
# Funding and Liquidity



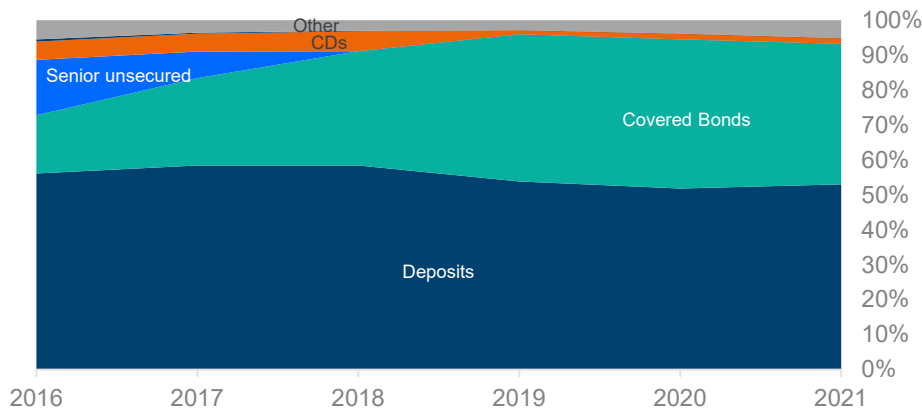
# Diversified Funding Profile



Maturity Profile



Funding Structure



- 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 programmes
- Deposit funding collected through 100% subsidiary bank "Suomen AsuntoHypoPankki"
- Other funding sources
  - Domestic Certificate of Deposit programme
  - ECB repo counterparty
  - Bilateral loans (eg. NIB green funding cooperation)
- NSFR 114.1 % (107.0 % as at ye2020)
- Deposits through the AsuntoHypoPankki subsidiary form currently ~53% of total funding
- Covered bonds currently ~40% of total funding
- Domestic CD program supports short term funding needs

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# Covered Bonds



- 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 30.1%
- Current nominal overcollateralization 29.0%
  - 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 interest rate risk

Type	ISIN	Issue Date	Maturity Date	Nominal (m€)	Coupon	Pricing
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
Covered	FI4000496344	24.3.2021	24.3.2031	300	Fixed +0.01	MS +6

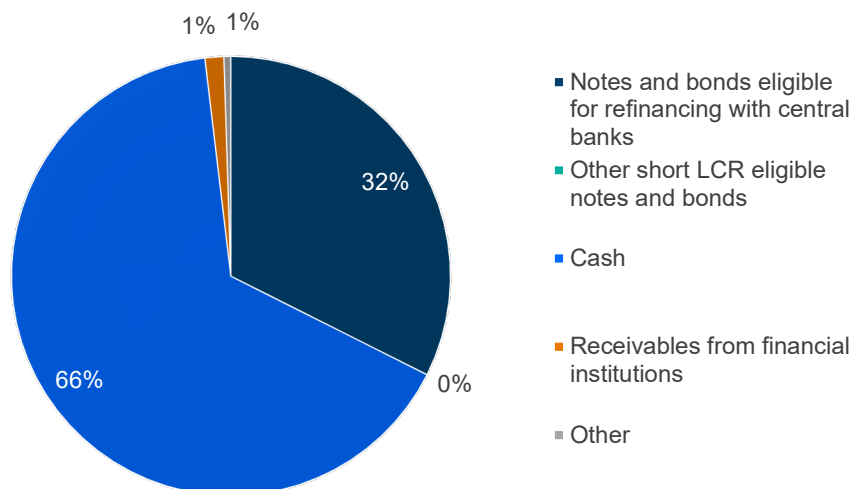
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# Solid Liquidity Position



## Liquidity portfolio EUR 590.9 million as of 31.12.2021

- Equaling 17.8% 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 179.9% (194.5% as at ye2020)
- Liquidity covers wholesale funding cash flows for the following 29 months.



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# Outlook



# Future Outlook



*“High infection numbers and stretched health care system have led to significant restriction measures, which may change fast in any direction over the short term. But slowly the high share of people vaccinated against COVID-19, natural immunity and milder omicron version of the virus will help to bring an end to the emergency. Economic growth remains strong in the goods sector – service sector will mainly recover quickly after the restrictions are lifted. Housing markets in the growth centers remain strong even after the coronavirus crisis. Urbanization continues and return of services will bring an added boost to the cities. Low interest rates, institutional investors and subsidized building supports newbuilding activity. 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 and liquidity will remain on a strong level. The operating profit for 2022 is expected to be on the same level or slightly smaller than in 2021. The expectation contains uncertainties due to the development in economy and interest rates as well as the coronavirus pandemic.”*





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