

# Hypo Investor Update 4Q2022

Debt Investor Presentation



Published on January 31, 2023

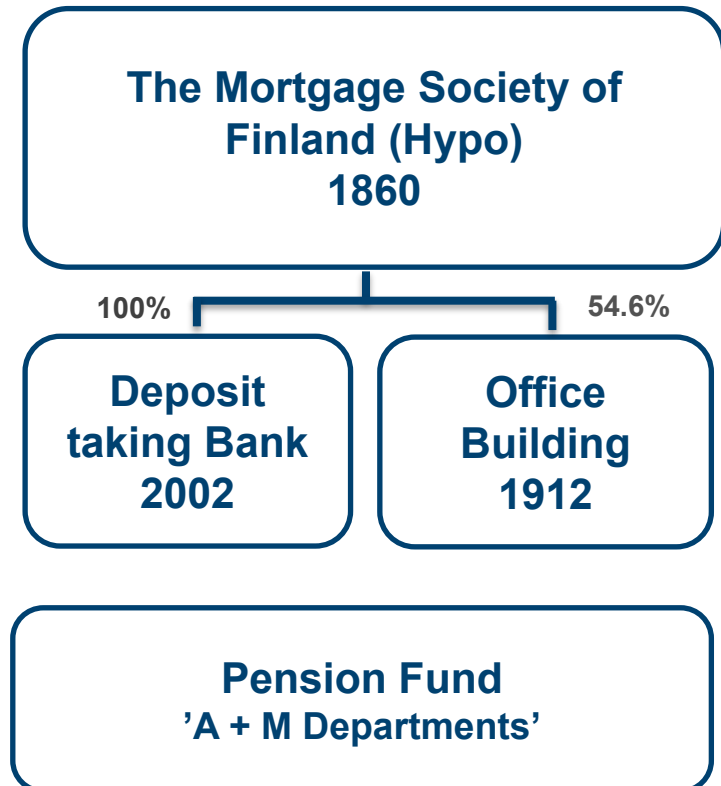


**Secure Way for Better Living**

# 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 4Q22)
- Total assets EUR 3.5 billion (as at 4Q22)
- Established and regular issuer in Finland
- S&P issuer rating 'BBB/A-2' (stable)
- S&P covered bond ratings '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 decades-long loan-loss track record
- 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



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

15.4.2021 04:30

PANKIT

FINANSSI

TILINPÄÄTÖS



Ylitarjoontaa. Hypön toimitusjohtaja Ari Pauna arvelee, että...  
kertaluokkaa pienemmällä määrällä.

ETUSIVU » PAIKALLISET 19.11.2021 10:27 | Päivitetty 19.11.2021 11:19

**Asuntojen hinnat nousevat tä  
vuonna odotettua enemmän,  
ennustaa Hypo,  
pääkaupunkiseudulla  
hinnannousu 5,5 prosenttia -  
Myös lainakulut nousemassa**

## Pankkipomolta raju ehdotus: Asumisen tuet pitäisi ajaa alas

Hypön toimitusjohtajan Ari Paunan mukaan vuokra-asumisen tuista pitäisi luopua 15–20 vuoden siirtymäajalla, koska julkinen talous ei kestä tukien jatkuvaa kasvua.

JAA

KOMMENTIT



Hypoteekkiyhdistyksen toimitusjohtaja Ari Pauna mukaan julkinen talous kärsii asumisen tukien kasvusta. KUVA: JUSSI NUKARI / LEHTIKUVA, SEPPÖ KÄRKI / IS



...yytyy - Hypo ennustaa Suomen käyvän  
...ppuvuonna

2019 11:40

KANSANTALOUS

ASUMINEN

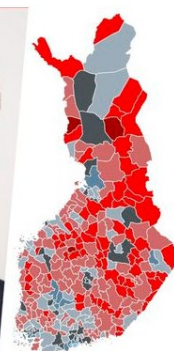
POLITIikka



...alouuskasvua: "Edessä kesä,  
...eilla ja baarien l...

...o asetti kunnille riskiluokituksen -  
...kitus voi vaikuttaa asuntosi arvoon ja  
...neuvotteluihin

...riski uhkaa joka sadannen asunnon arvoa. Toistaiseksi riskiä ei  
hinnoitella asuntojen arvoon, mutta Hypön ekonomistin mukaan  
yksikin ääri-ilmiö voi aiheuttaa dominoefektin.



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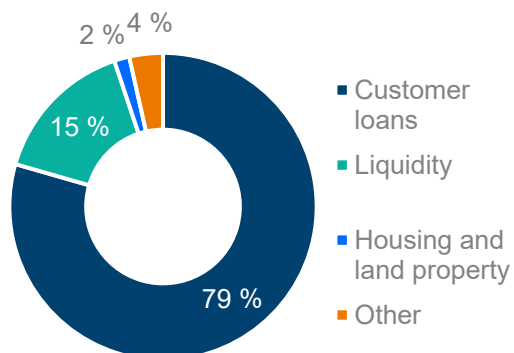
# Financial Results



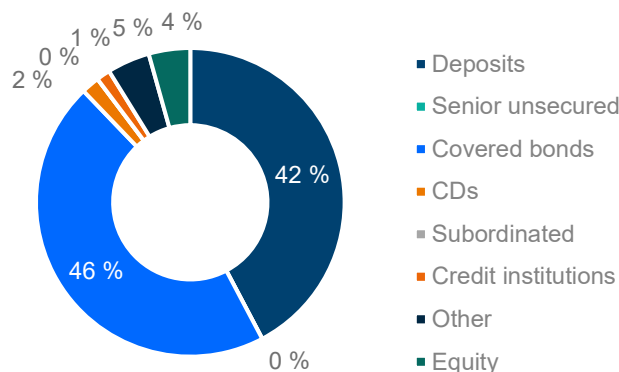
# Strong Balance Sheet



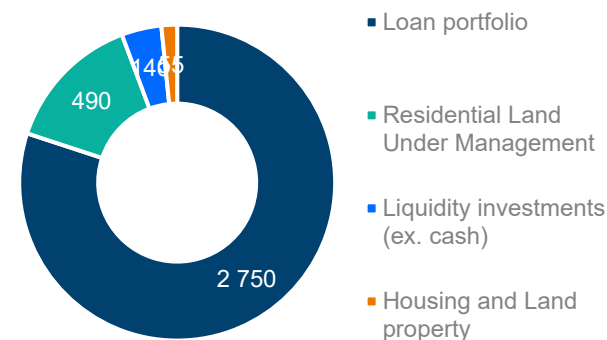
Total Assets



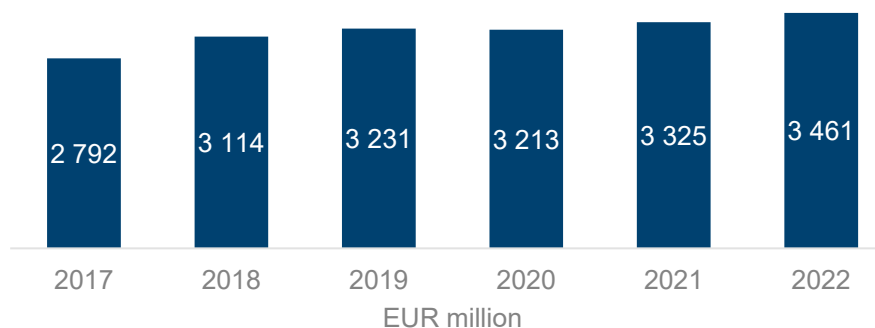
Liabilities and Equity



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

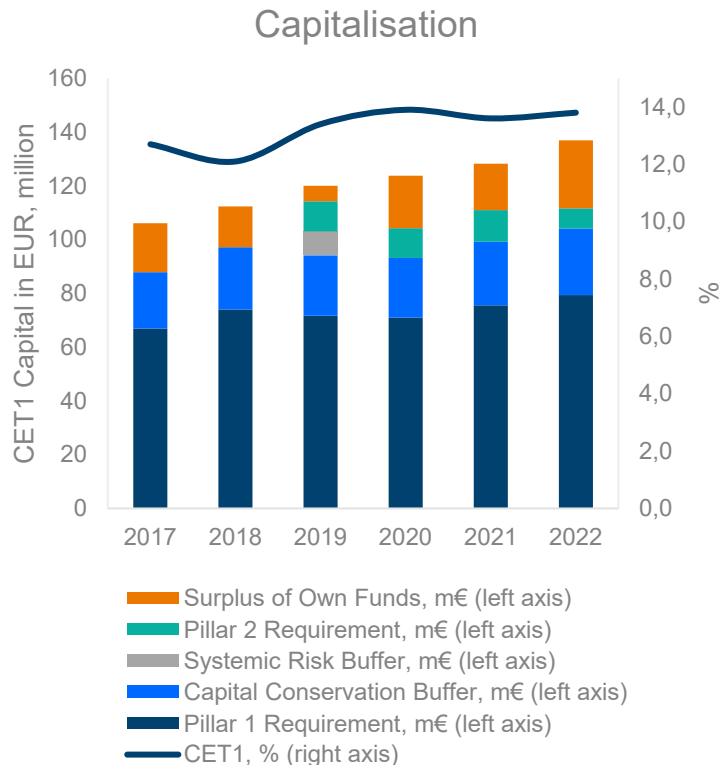


Balance Sheet Total



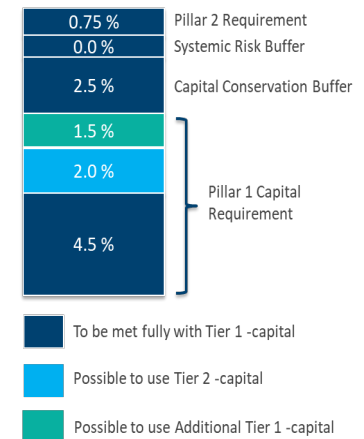
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# Solid Capital Basel III Standard Approach



- Mutual company: all profits are retained and added to the core capital
- S&P's Risk Adjusted Capital 17.9% on 31.12.2021
- Total Capital Ratio 13.8%, all CET1 (as at 4Q2022)
- EUR 25 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	0.75 %
<ul style="list-style-type: none"> <li>• Entered into force 31.12.2022</li> </ul>	
➔ Total Capital Requirement	11.25 %



- EUR 4.8 million of hidden reserves in housing property (not marked-to-market) and EUR 6.4 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



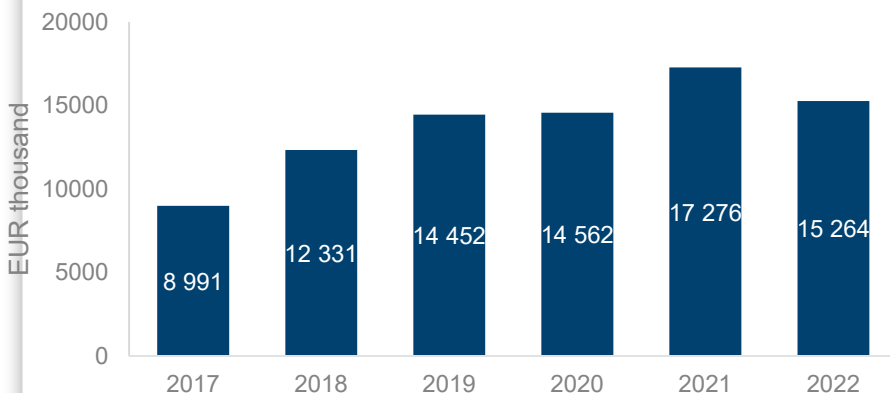
# Group Income Statement



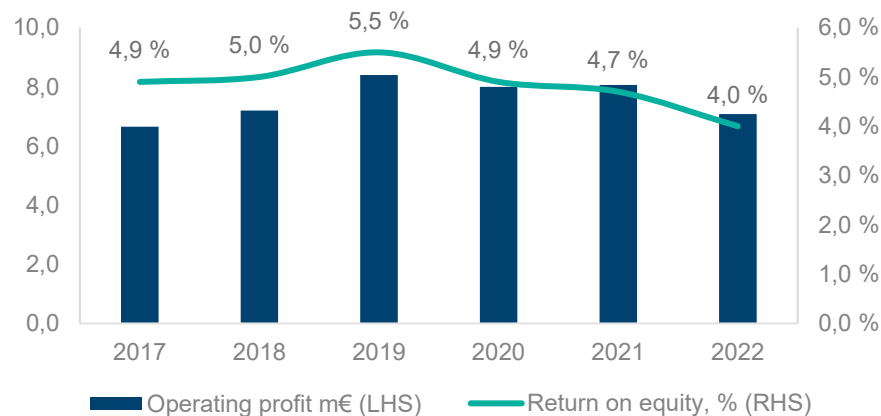
(EUR 1,000)	2022	2021	2020	2019
<b>Net Interest Income</b>	15,264	17,276	14,562	14,452
<b>Net Fee and Commission Income</b>	3,592	4,077	3,675	3,562
<b>Total Other Income</b>	5,766	4,734	4,236	2,689
<b>Total expenses</b>	-17,543	-18,023	-14,429	-12,296
<b>Operating Profit</b>	<b>7,079</b>	<b>8,064</b>	<b>8,044</b>	<b>8,407</b>

- In 2022, net interest income decreased by 11.6% to EUR 15.3 million due to increased interest rates
- Hypo Group's operating profit was EUR 7.1 million in 2022
- Net Fee and Commission Income totaled EUR 3.6 million in 2022
- Total other income (incl. treasury operations and housing and residential land) amounted to EUR 5.8 million in 2022
- Total expenses totaled EUR 17.5 million in 2022

Net Interest Income



Profitability



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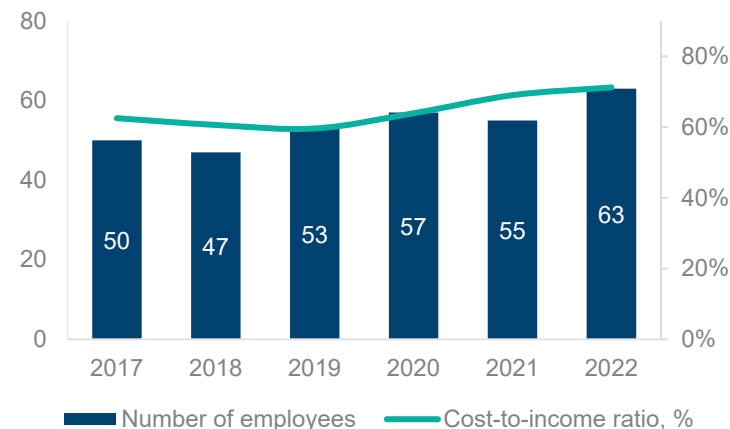
# Group Key Financial Figures



	2022	2021	2020	2019
<b>Return on Equity (ROE), %</b>	4.0	4.7	4.9	5.5
<b>Common Equity Tier 1 (CET1), %</b>	13.8	13.6	13.9	13.4
<b>Cost-to-income, %</b>	71.2	69.0	63.9	59.6
<b>Non-performing loans (NPL), %</b>	0.14	0.14	0.11	0.10
<b>Loan to value (LTV), %</b>	30.8	33.1	33.8	35.3
<b>Loans / deposits, %</b>	187.0	158.8	160.7	158.8
<b>Loan portfolio total (m€)</b>	2,750	2,637	2,511	2,586
<b>Balance sheet total (m€)</b>	3,461	3,325	3,213	3,231

- Total assets were EUR 3.5 billion and loan portfolio EUR 2.8 billion in 2022
- In 2022 CET1 ratio was 13.8% (13.6% as at ye2021) and equity amounted to EUR 150.5 million (143.7 million as at ye2021)
- Group's financial position remained stable throughout the period
- Strong credit profile with both very low NPLs and LTV's

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



- Cost-to-income ratio was 71.2% in 2022 (69.0% as at ye2021)

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# Hypo's Loan Book

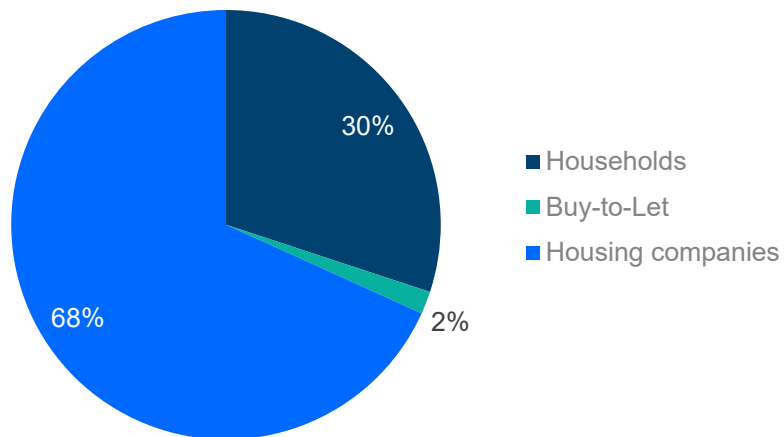


# Loan Book Overview

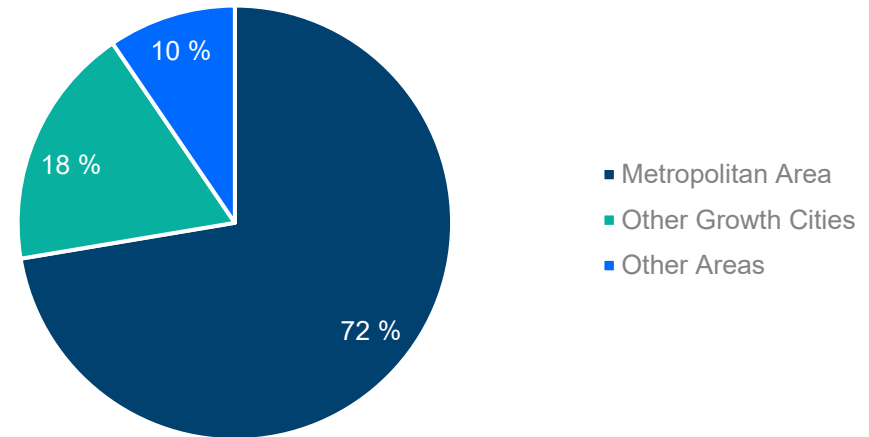


- Hypo's loan book is EUR 2,749.9 million
- Mortgage loans secured by residential property
- Collateral requirement is set in the Finnish Act on Mortgage Societies
- Two main customer groups
  1. Households: home mortgage, buy-to-let
  2. Housing companies: renovation loans

Lending by Customer Type



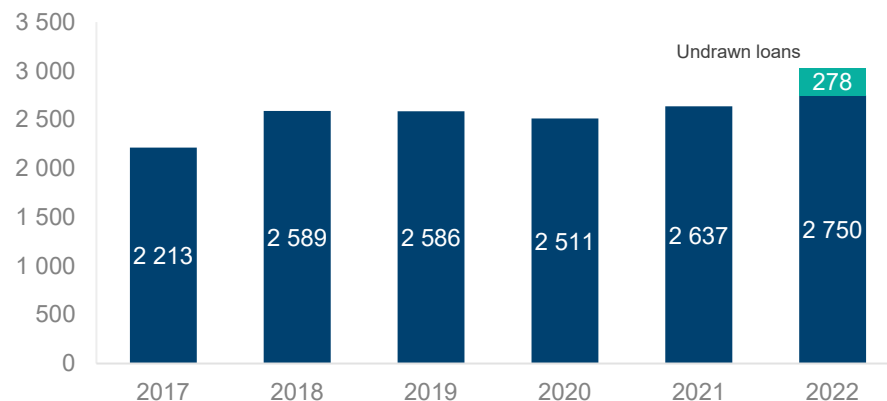
Loan Book by Customer Domicile



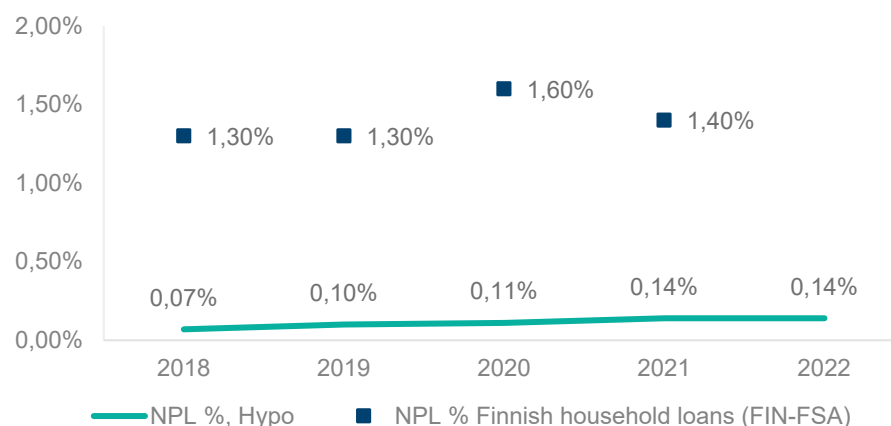
# Loan Book Quality Excellent



Hypo Loan Book Total, m€



Non-performing Loans (%)



- During the financial period, the loan portfolio grew 4.3% to EUR 2,749.9 million
- Currently EUR 278 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

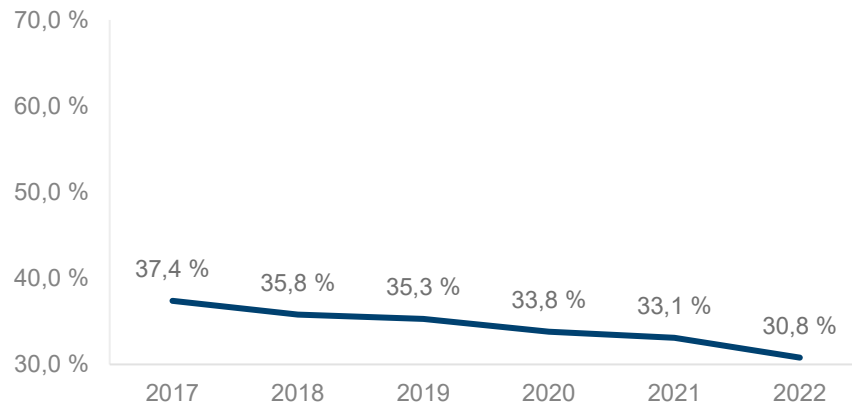
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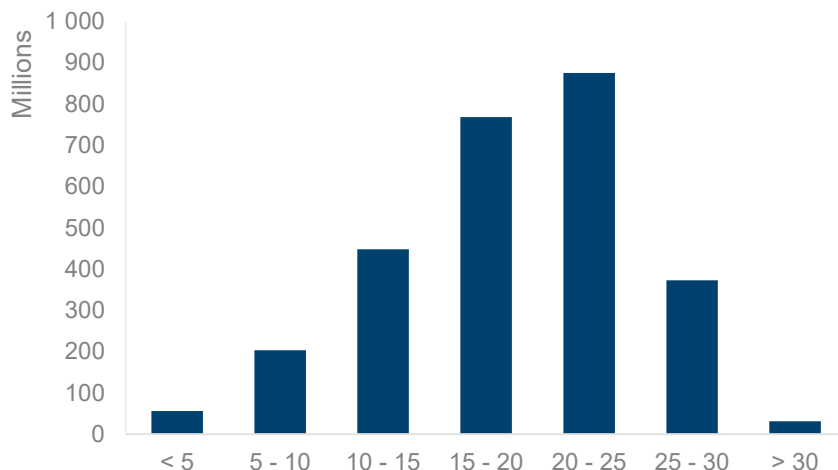
# Loan Book Securely Collateralised



Hypo Loan Book Average LTV



Loan Book by Remaining Maturity (years)



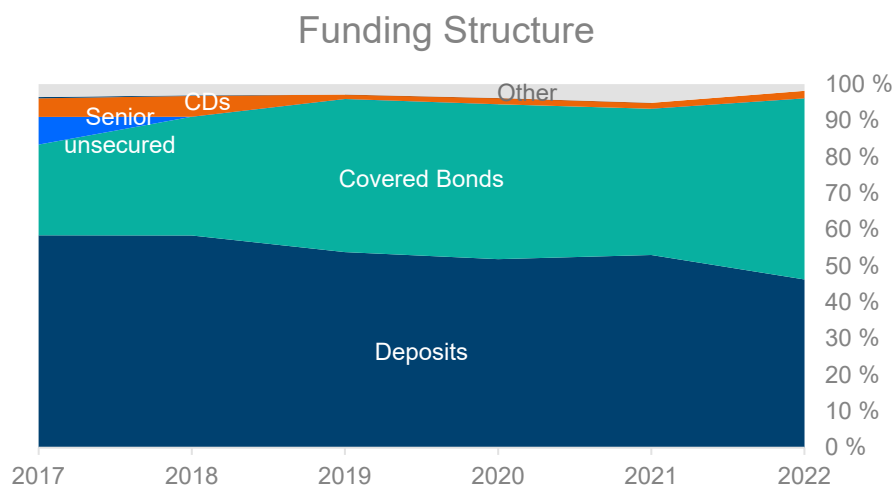
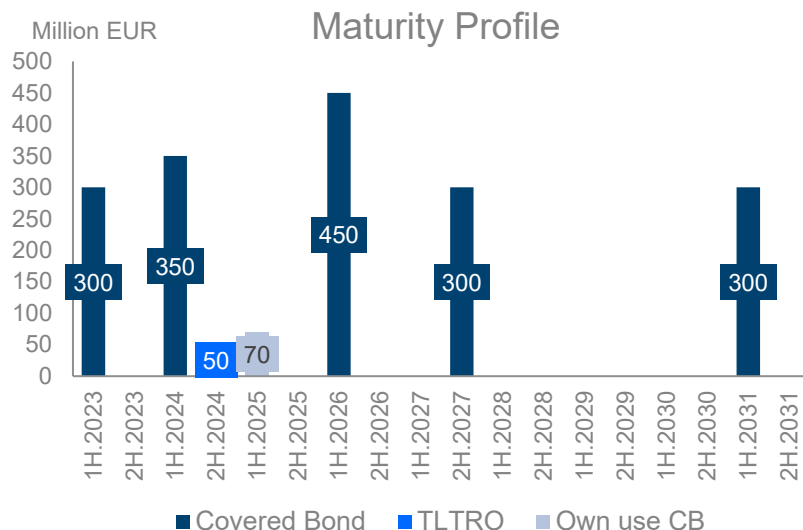
- Low LTV combined with conservative collateral valuation makes Hypo's loan book very strong even in times of stress
- Hypo's loan portfolio is entirely secured by residential property
- The average LTV (loan-to-value) is stable at 30.8%
- Around 99% of the loans are amortizing and 1% bullets
- >90% of loan book is risk weighted at 35% or lower
- The average maturity of a loan at the time of withdrawal is 23.4 years
- Financed properties are mainly located in the densely populated Helsinki Metropolitan Area

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# Funding and Liquidity



# Diversified Funding Profile



- 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
- NSFR 106.5% (114.1 % as at ye2021)
- Deposits through the AsuntoHypoPankki subsidiary form currently ~46% of total funding
- Covered bonds currently ~50% of total funding
- Domestic CD program supports short term funding needs

# Covered Bonds



- Issuer is the Group parent, no separate covered bond issuer
- Hypo is a member of ECBC
- Covered bonds rated 'AAA' (stable) by S&P
- Cover pools consist 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 1,770 million
- Current WALTV for pools 29.4% and 20.8%
- Current nominal overcollateralization for pools 30.5% and 23.3%
  - 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

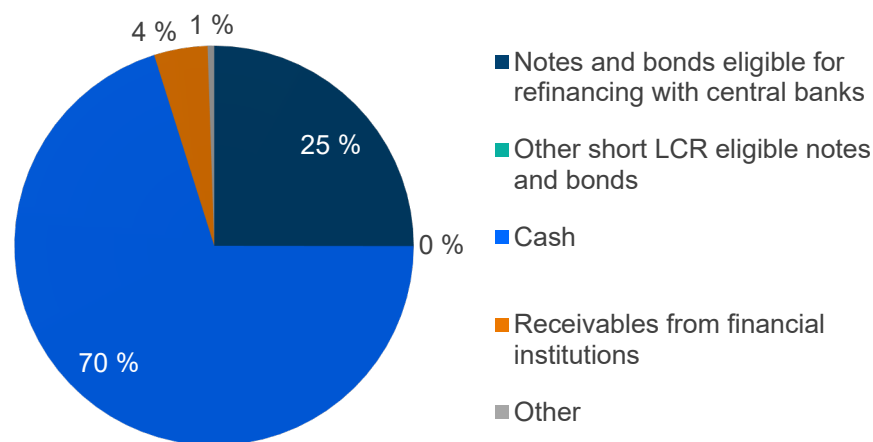
Type	ISIN	Issue Date	Maturity Date	Nominal (m€)	Coupon	Pricing
Covered – Pool 1	FI4000266903	28.6.2017	28.6.2024	250	Fixed +0.375	MS +9
Covered – Pool 1	FI4000266903 (tap)	25.10.2017	28.6.2024	50	Fixed +0.375	MS +4
Covered – Pool 1	FI4000315841	24.4.2018	24.4.2023	250	Fixed +0.375	MS +6
Covered – Pool 1	FI4000315841 (tap)	14.11.2018	24.4.2023	50	Fixed +0.375	MS +9
Covered – Pool 1	FI4000375092	13.3.2019	13.3.2026	300	Fixed +0.5	MS +15
Covered – Pool 1	FI4000496344	24.3.2021	24.3.2031	300	Fixed +0.01	MS +6
Covered – Pool 1	FI4000522420 (own use)	20.4.2022	20.4.2025	70	Float EUB 3M +7 bps	
Covered – Pool 1	FI4000375092 (tap)	26.4.2022	13.3.2026	150	Fixed +0.5	private placement
Covered – Pool 1	FI4000266903 (tap)	9.9.2022	28.6.2024	50	Fixed +0.375	private placement
Covered – Pool 2	FI4000541461	15.11.2022	15.11.2027	300	Fixed +3.25	MS +23

# Solid Liquidity Position



## Liquidity portfolio EUR 560.8 million as of 31.12.2022

- Equaling 16.2% 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 201.6% (179.9% as at ye2021)
- Liquidity covers wholesale funding cash flows for the following 17 months.





# Outlook



# Future Outlook



“Economic growth will slow down, and recession is likely in the beginning of the year due to high inflation, rising rates and uncertainty linked to Russia’s war in Ukraine continues. Employment remains strong which is the most important factor supporting the economy and the housing market. Housing sales are expected to recover in the spring but prices will decline for longer. Housing starts will go down but number of completed new homes will stay high in the year 2023. Differences between housing market areas and units will deepen. Urbanization will increase due to the strong newbuilding to Helsinki-Tampere-Turku -areas.

Hypo Group focuses on strengthening its core business and profitability. The Group expects net interest income, net fee and commission income, capital adequacy and liquidity to remain on a strong level.

The operating profit for 2023 is expected to be at least on the same level than in 2022. The expectation contains uncertainties due to the development in economy and interest rates as well as uncertainties related to the war in Ukraine.”



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