

# Hypo Investor Update 4Q2023

Debt Investor Presentation



Published on February 2, 2024



**Secure Way for Better Living**

# Content

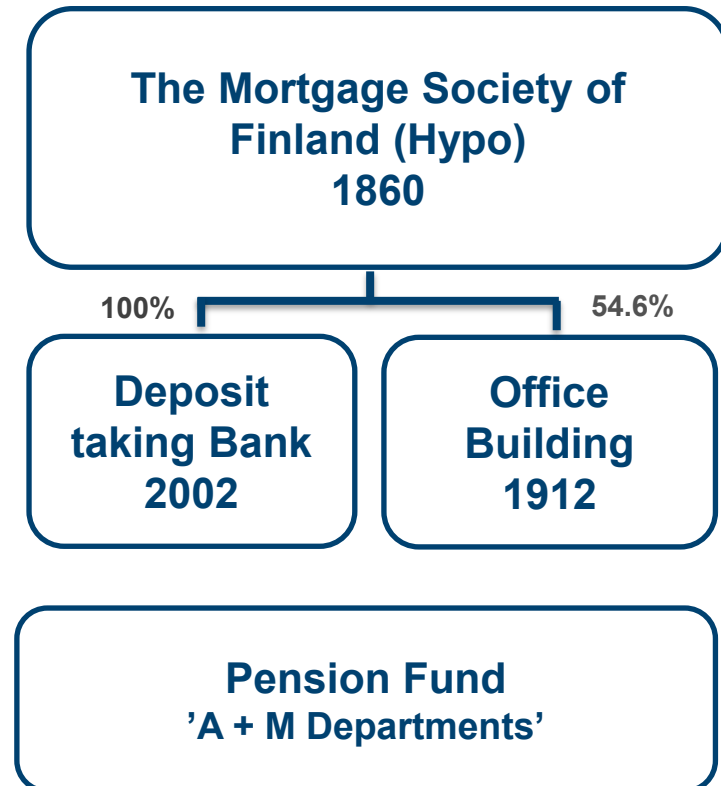
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# Hypo Group Overview



- 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 0.19% (as at 4Q23)
- Total assets EUR 3.6 billion (as at 4Q23)
- 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 ongoing business stability given selective business underwriting partly offsets concentrated business profile
- Well positioned to resume loan growth and improve operating efficiency

### 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

- Issuance of covered bonds improves funding maturity and leads to a well-matched funding profile
- Less stable deposit base and higher share of wholesale funding 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



Taloyhtiöiden maineet  
harmittaa asuntorakentamista

yle Uutiset Areena Urheilu Valikko

Uutiset Tuoreimmat Eduskuntavaalit Venäjän hyökkäys

Talous

**Hypo: Asuntojen hinnat laskevat vuonna enemmän kuin 25 vuodelistassamme, minkälaiset asunnot**

**penevät eniten ja missä arvo säilyy**

Asuntojen hinnat ovat nousseet muita asuntoja nopeammin miltei kahden ajan. Nyt yksioiden hintoihin on osunut voimakas

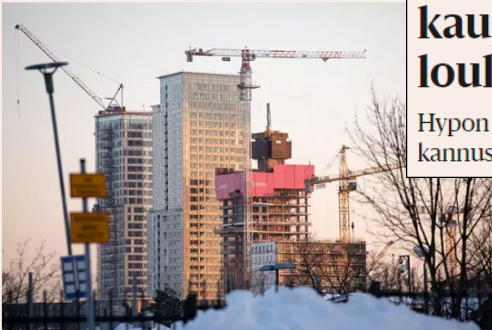
**Hypo: Venäjän hyökkäys Ukrainaan aiheuttamassa rakentamisen äkkikäännöksen – "Tässä voi tulla yllättävän voimakas lasku"**

Hypon asuntomarkkinoihin keskittyvän ekonomisti Juho Keskisen mukaan myönnettyjen rakennuslupien aiempaa alemmasta määrästä voi päätellä, että asuntorakentamisessa "olla paussilla", kun hinnat ovat nousussa. Ukrainan sota voi voimistaa kehitystä.

Talous | Asuntomarkkinat

**Hypo: Asuntojen hintoihin tulossa poikkeuksellinen käänne, yhtä rajua laskua viimeksi vuonna 1995**

Helsingin seudulla asuntojen hinnat laskevat ensi vuonna prosenttia, ennustaa Hypo. Käänne on lyhytaikainen, jos työmarkkinat eivät hyydy.



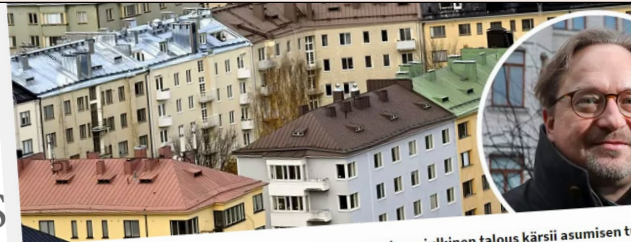
"Sijoittajien talvihorros tarjoaa nyt hyviä hintaneuvottelun paikkoja pienten kotien etsijöille", toteaa Hypon ekonomisti Juho Keskinen. KUVA: JOONAS SALO

Laura Kukkonen HS  
18.11.2022 0:01 | Päivitetty 18.11.2022 8:38

Talous | Asuntomarkkinat

**Hypo: Markkinoille syntynyt kauppaa jumittava kannustinloukku**

Hypon arvion mukaan korkojen voimakkaasta noususta syntynyt kannustinloukku koskettaa peräti miljoonaa suomalaista.



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

**Kasvua: "Edessä kesä, areilla ja baarien la-**

**Hypo asetti kunnille riskiluokituksen – luokitus voi vaikuttaa asuntosi arvoon ja lainaneuvotteluihin**

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



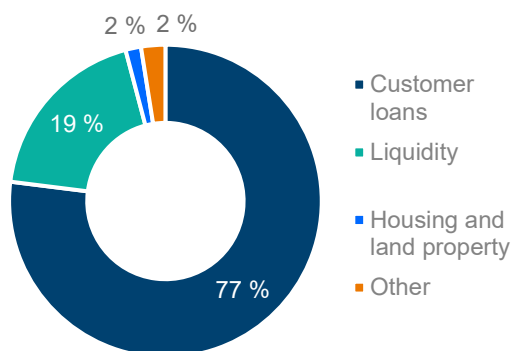
# Financial Results



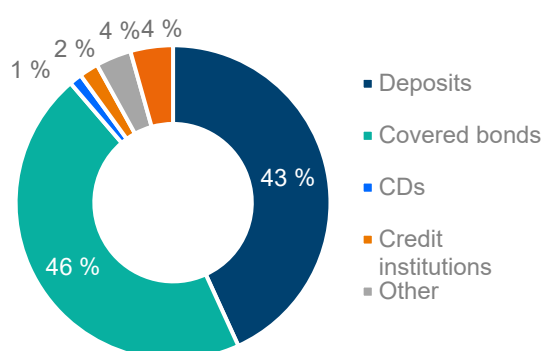
# Strong Balance Sheet



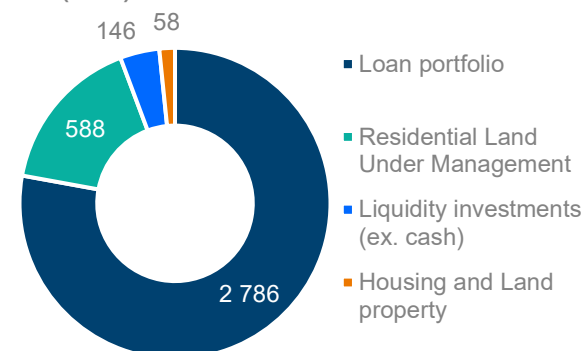
Total Assets



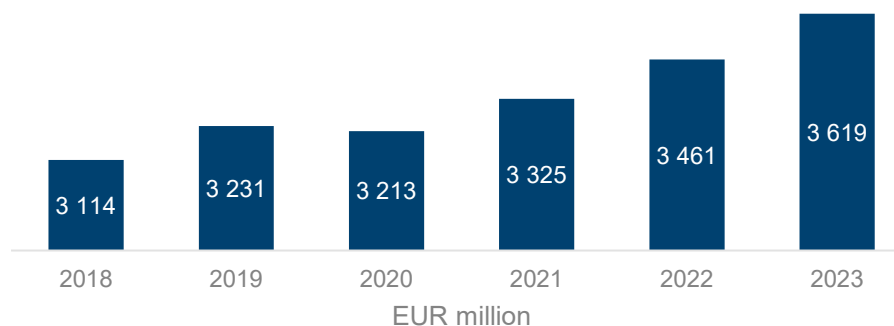
Liabilities and Equity



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



Balance Sheet Total



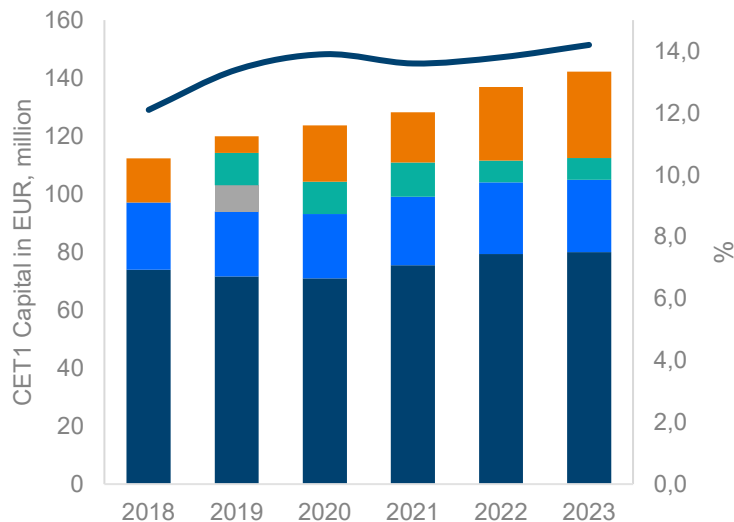
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# Solid Capital Basel III Standard Approach



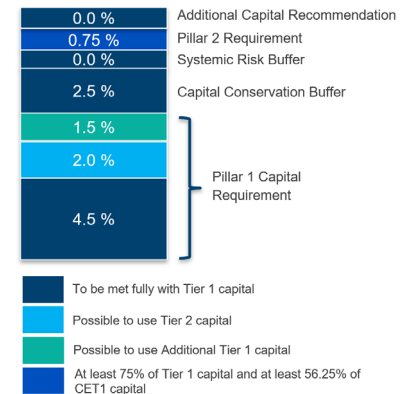
Capitalisation



- Surplus of Own Funds, m€ (left axis)
- Pillar 2 Requirement, m€ (left axis)
- Systemic Risk Buffer, m€ (left axis)
- Capital Conservation Buffer, m€ (left axis)
- Pillar 1 Requirement, m€ (left axis)
- CET1, % (right axis)

- Mutual company: all profits are retained and added to the core capital
- S&P's Risk Adjusted Capital 18.0% on 31.12.2022
- Total Capital Ratio 14.2%, all CET1 (as at 4Q2023)
- EUR 30 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>• 1% from 1.4.2024 onwards</li> </ul>	
Pillar 2 Requirement	0.75%
Additional Capital Recommendation	0.00%
<ul style="list-style-type: none"> <li>• 0.75% from 31.3.2024 onwards</li> </ul>	
<b>➔ Total Capital Requirement</b>	<b>11.25%</b>



- EUR 4.6 million of hidden reserves in housing property (not marked-to-market) and EUR 6.9 million of surplus in Pension Fund
  - Inclusion into CET1 would raise the ratio to 15.1%
- Basel III standardized approach risk weights
  - Lending with residential collateral: 35% risk weight
  - Housing and land investments: 100% risk weight

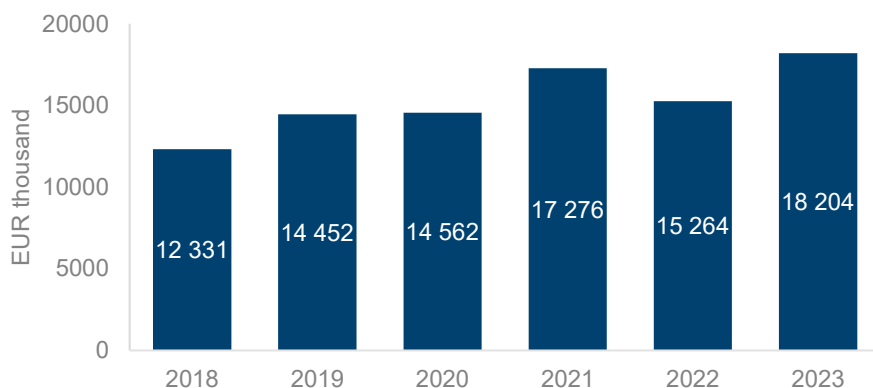
# Group Income Statement



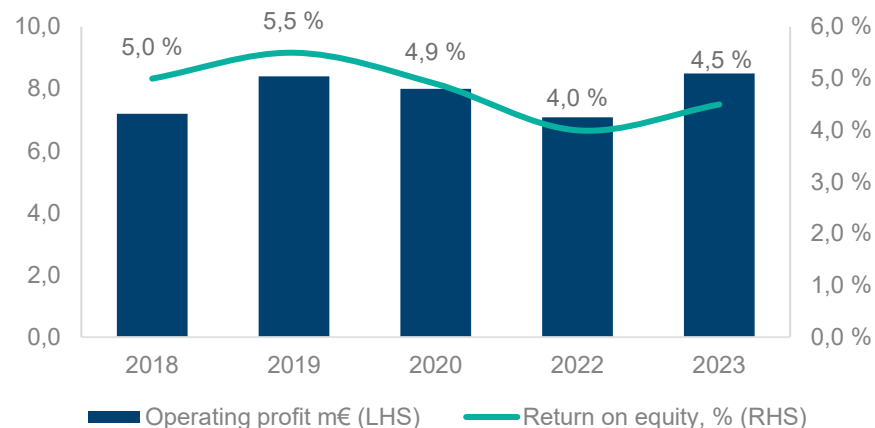
(EUR 1,000)	2023	2022	2021	2020
<b>Net Interest Income</b>	18,204	15,264	17,276	14,562
<b>Net Fee and Commission Income</b>	4,697	3,592	4,077	3,675
<b>Total Other Income</b>	2,106	5,766	4,734	4,236
<b>Total expenses</b>	-16,504	-17,543	-18,023	-14,429
<b>Operating Profit</b>	<b>8,503</b>	<b>7,079</b>	<b>8,064</b>	<b>8,044</b>

- In 2023, net interest income increased by 19.3% to EUR 18.2 million (EUR 15.3 million) due to increased interest rates
- Hypo Group's operating profit was EUR 8.5 million in 2023
- Net Fee and Commission Income totaled EUR 4.7 million in 2023
- Total other income (incl. treasury operations and housing and residential land) amounted to EUR 2.1 million in 2023
- Expenses decreased by 5.9% from the previous year and totaled EUR 16.5 million (EUR 17.5 million)

Net Interest Income



Profitability



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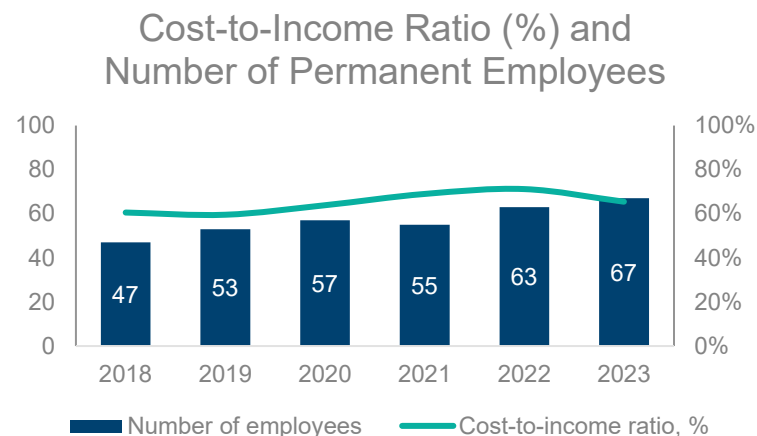
# Group Key Financial Figures



	2023	2022	2021	2020
Return on Equity (ROE), %	4.5	4.0	4.7	4.9
Common Equity Tier 1 (CET1), %	14.2	13.8	13.6	13.9
Cost-to-income, %	65.5	71.2	69.0	63.9
Non-performing loans (NPL), %	0.19	0.14	0.14	0.11
Loan to value (LTV), %	30.3	30.8	33.1	33.8
Loans/ deposits, %	178.2	187.0	158.8	160.7
Receivables from the public (m€)	2,786	2,754	2,637	2,511
Balance sheet total (m€)	3,619	3,461	3,325	3,213

- Cost-to-income ratio was 65.5% in 2023 (71.2% as at ye2022)

- Total assets were EUR 3.6 billion and receivables from the public EUR 2.8 billion in 2023
- In 2023 CET1 ratio was 14.2% (13.8% as at ye2022) and equity amounted to EUR 158.2 million (150.5 million as at ye2022)
- Group's financial position remained stable throughout the period
- Strong credit profile with both very low NPLs and LTV's



# Hypo's Loan Book

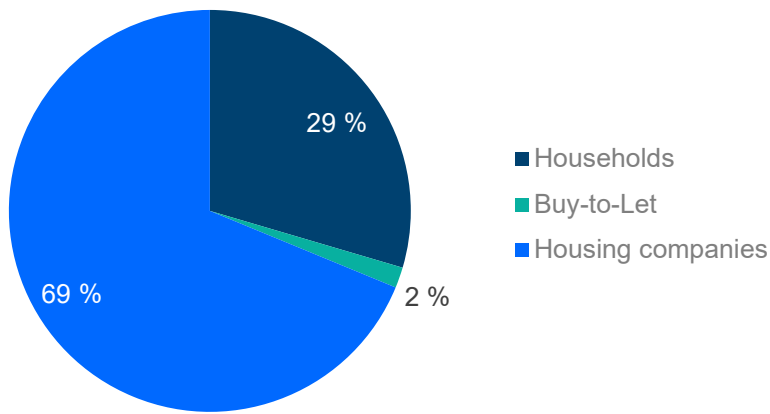


# Loan Book Overview

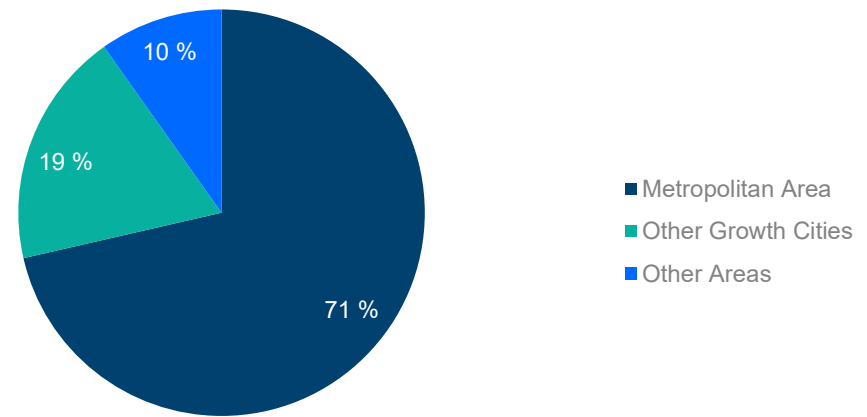


- Hypo's loan book is EUR 2,786 million
- Mortgage loans secured by residential property
- Collateral requirement is set in the Finnish Act on Mortgage Societies
- Two main customer groups
  1. Households: home mortgage, buy-to-let
  2. Housing companies: renovation loans

Lending by Customer Type

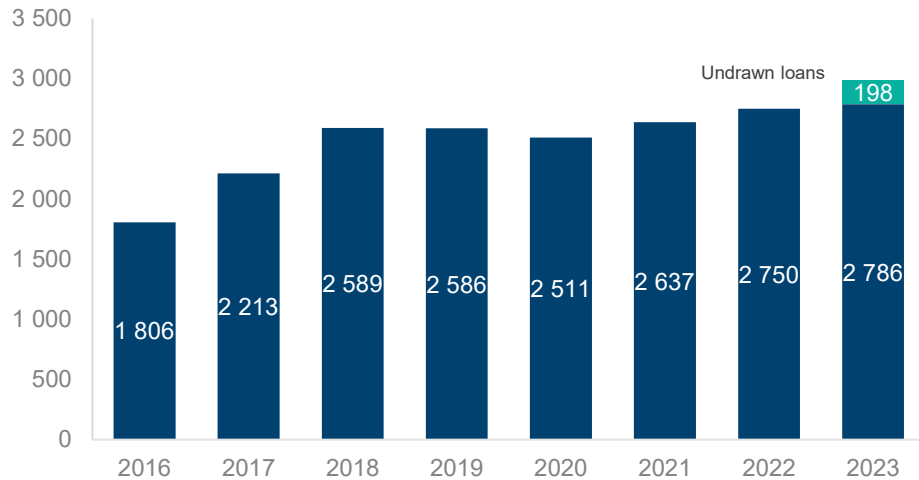


Loan Book by Customer Domicile

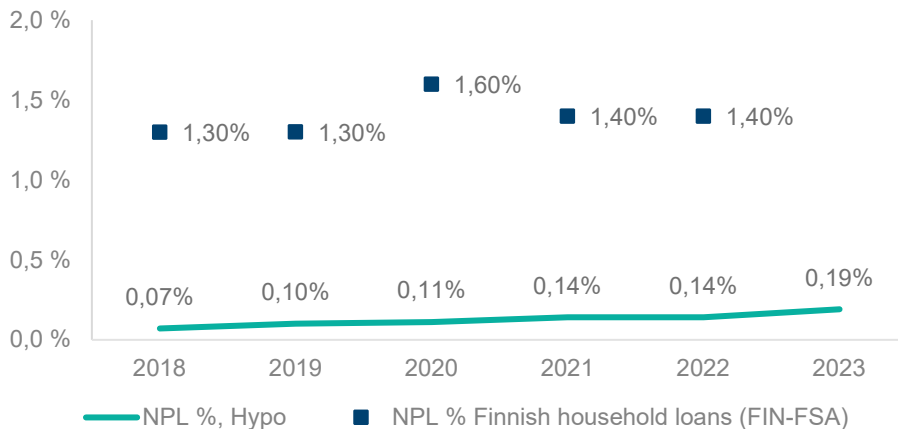


# Loan Book Quality Excellent

Hypo Loan Book Total, m€



Non-performing Loans (%)

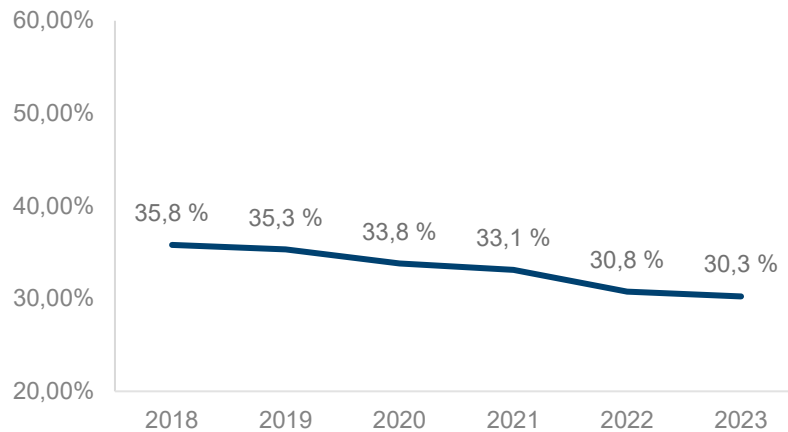


- During the financial period, the loan portfolio grew by 1.2% to EUR 2,786 million
- Currently EUR 198 million undrawn loans
- All lending is against residential collateral
- Only EUR denominated lending
- All collateral is located in Finland
- Strategic concentration in the Helsinki Metropolitan Area and other specified growth areas
- Non-performing loans remained very low at 0.19% of total loans
- The quality of the loan book is well above the Finnish household loans' average NPLs

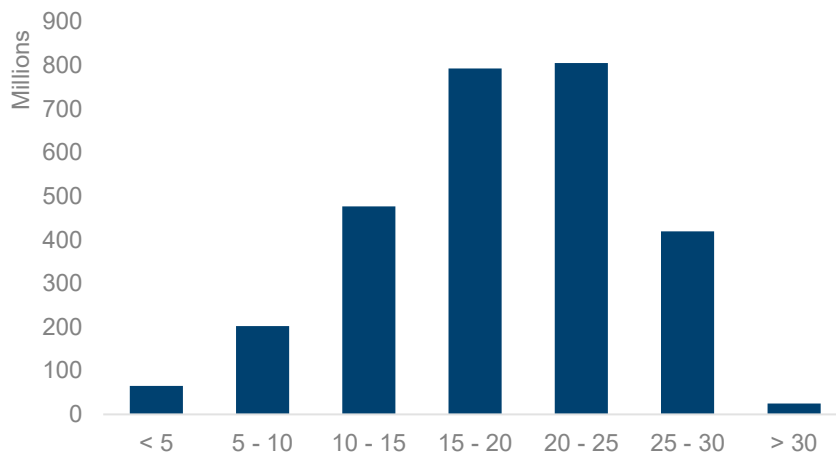
# Loan Book Securely Collateralised



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 30.3%
- 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 23.5 years
- Financed properties are mainly located in the densely populated Helsinki Metropolitan Area

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# Funding and Liquidity

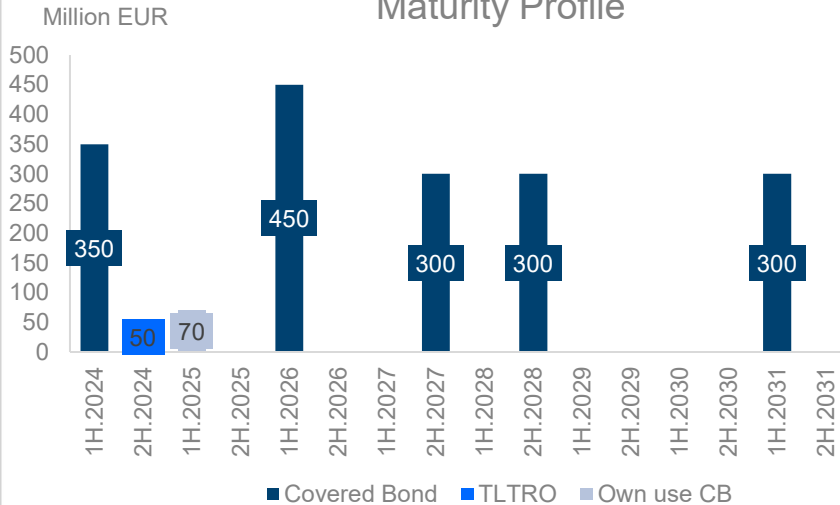




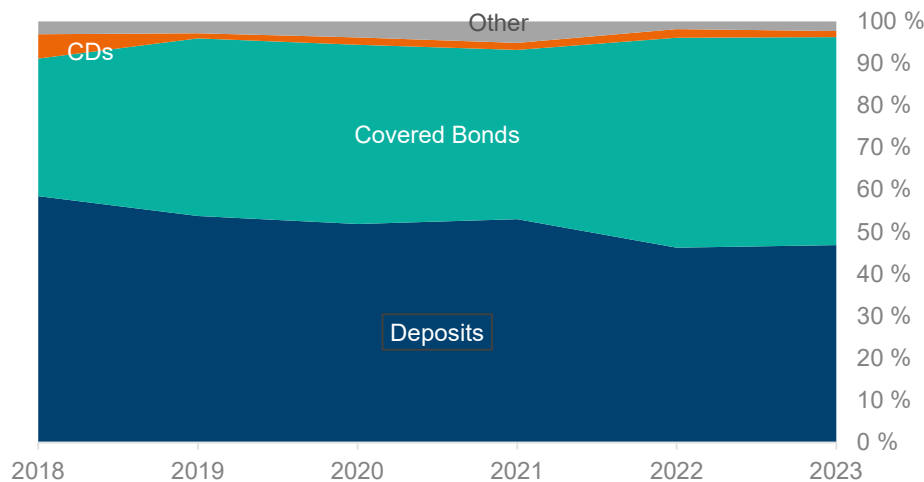
# Diversified Funding Profile



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
- NSFR 112% (106.5% as at ye2022)
- Deposits through the AsuntoHypoPankki subsidiary form currently ~47% of total funding
- Covered bonds currently ~49% 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's for pools 30.1% and 25.1%
  - Current nominal overcollateralization for pools 28.0% and 26.0%
    - Commitment to keep the OC, in both pools, 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

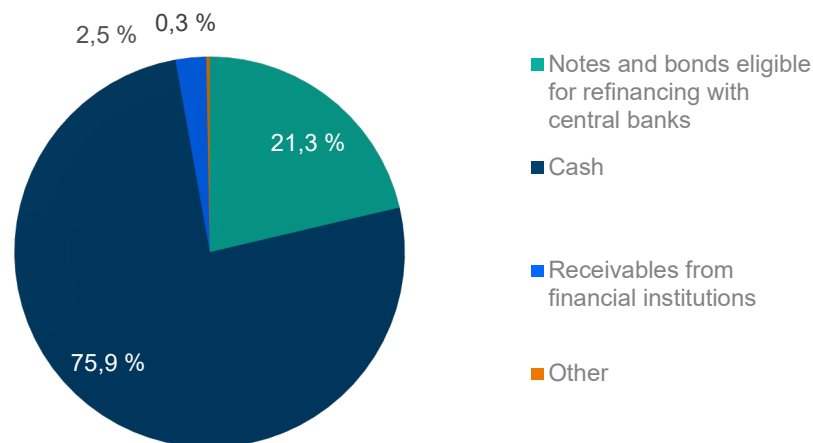
Type	ISIN	Issue Date	Maturity Date	Nominal (m€)	Coupon	Pricing
Covered – Pool 1	FI4000266903	28.6.2017	28.6.2024	250	Fixed +0.375	MS +9
Covered – Pool 1	FI4000266903 (tap)	25.10.2017	28.6.2024	50	Fixed +0.375	MS +4
Covered – Pool 1	FI4000375092	13.3.2019	13.3.2026	300	Fixed +0.5	MS +15
Covered – Pool 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
Covered – Pool 2	FI4000549605	15.3.2023	15.9.2028	300	Fixed +3.625	MS +32

# Solid Liquidity Position



## Liquidity portfolio EUR 686.4 million as of 31.12.2023

- Equaling 19% of total assets
- Conservative investment policy
  - 97.6% 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 326.4% (201.6% as at ye2022)
- Liquidity covers wholesale funding cash flows for the following 26 months.



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# Outlook



# Future Outlook



“Finland's economic growth is weak during year 2024. Labor markets cool down and foreign trade stagnates. The construction sector is in a weak phase, and construction investments are lower than before, but decreasing inflation and improving wages support consumers' purchasing power. The reductions in transfer tax will help the housing market, which will recover better only after inflation and interest rates calm down. Housing starts are declining, but the completion of housing already in production will keep house prices moderate for the first half of this year. Differences between housing market areas and units become more important and urbanization continues supported by the strong supply of housing.

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 Mortgage Society of Finland group expects its operating profit for year 2024 to be clearly higher than operating profit for 2023. The outlook contains uncertainties due to development in economy and interest rates as well as uncertainties related to the wars in Ukraine and Gaza and the unstable global situation.”



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