Nykredit Group

H1/2023 Earnings call

16 August 2023

Numbers relate to Nykredit Group

Agenda

1	**Highlights of H1/2023** CEO Michael Rasmussen
2	**Financial performance, credit and funding plans** CFO David Hellemann
3	**Q&A**

Highlights of Nykredit in H1/2023

A very satisfactory half-year result

- Strong growth in core income driven by higher interest rates, volume growth and wealth management income
- High trading and investment income as well as positive net interest from equity
- Full year guidance has been revised upwards to DKK 9.75 – 10.75bn

Strong market position

- Continued volume growth in mortgage and bank lending driven by large corporates
- Lower mortgage activity from personal customers due to a more subdued housing market
- Growth in wealth management driven by inflow of new funds and positive value adjustments

Strong capitalisation and credit quality

- Credit quality remains strong – reservation for potential loan losses remain intact
- CET1 ratio of 19.7% - Nykredit's resilience is demonstrated in the EBA stress test
- Extraordinary dividends of DKK 1.85bn due to Nykredit's very strong capital position

A very satisfactory results for H1/2023

Exceeding our expectations

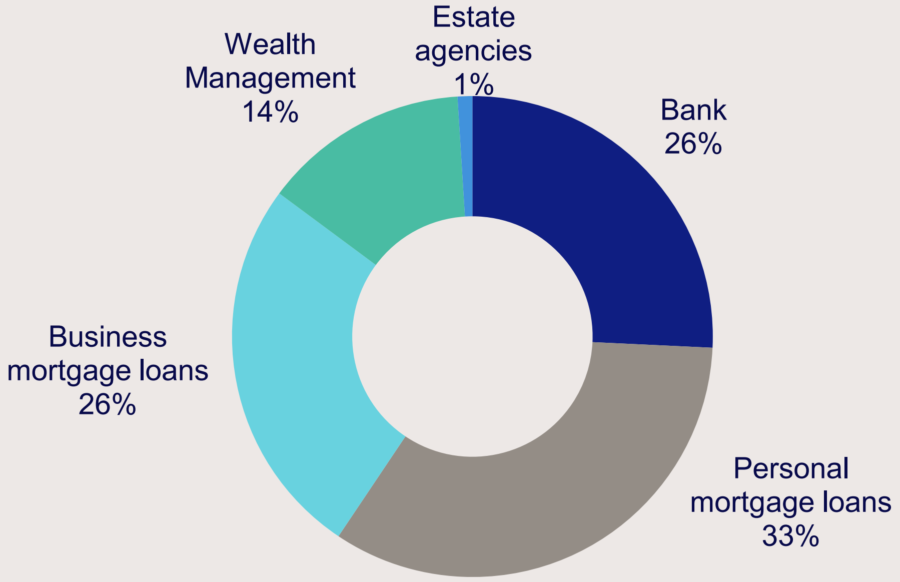
DKKm	H1/2021	H1/2022	**H1/2023**
Core income[1]	7,256	7,738	**8,507**
Trading and investment income	1,244	-41	**813**
Costs	2,989	3,094	**3,213**
Impairment charges[2]	89	-226	**-115**
Business profit	5,002	4,344	**6,898**
Profit after tax	4,353	4,057	**5,391**
Return on equity after tax, % p.a.	9.8%	8.9%	**11.4%**
Cost/income ratio	37.0%	42.9%	**32.1%**

[1] NII, NFI and Wealth Management income
[2] A negative number indicates a gain

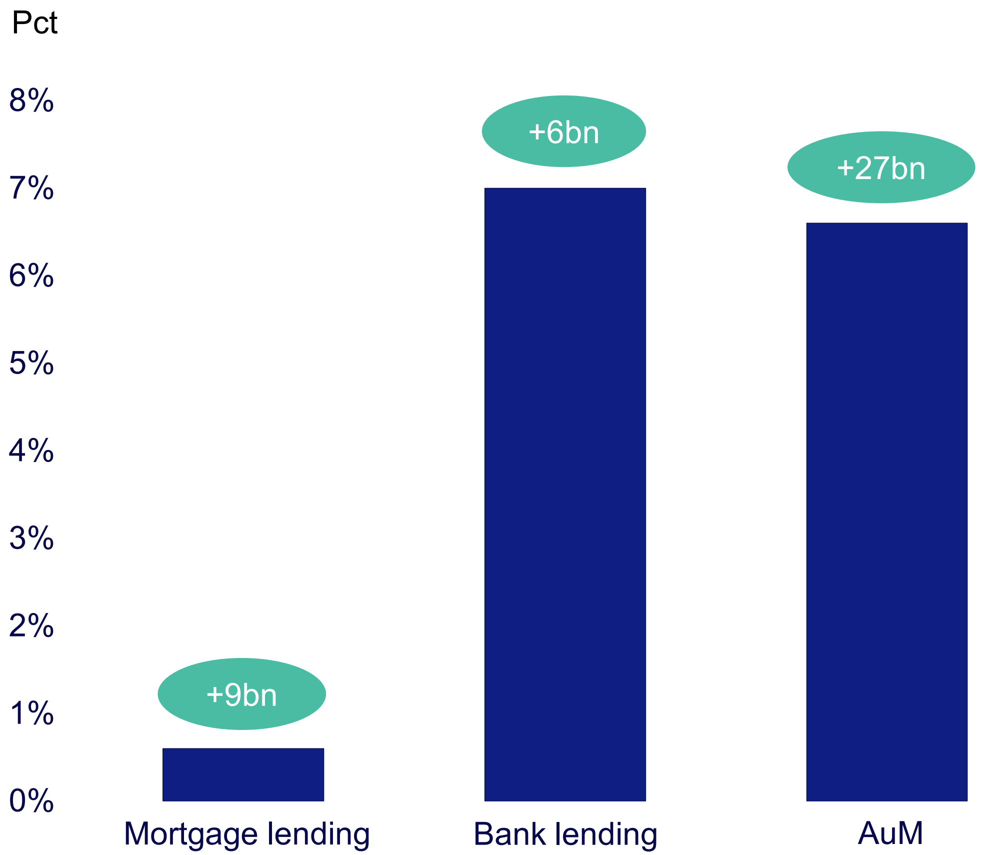
Diversified income and continued volume growth

- Strong business performance with volume growth driven by:
  - Mortgage lending by Corporates & Institutions and Private Wealth Management
  - 7% growth in bank lending driven by large corporates and retail customers
  - Organic growth in assets under management as well as positive value adjustments in Wealth Management

Core income is well diversified by products, H1/2023



Volume growth in all business areas, DKKbn, H1/2022 vs. H1/2023



93% of total lending is mortgage lending

Credit exposure dominated by low-risk mortgage lending to residential properties in Denmark

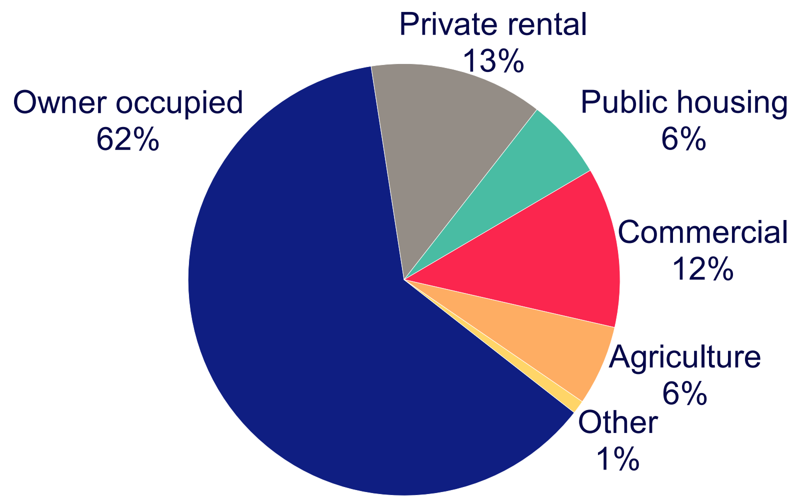
Bank and mortgage lending to business customers has increased, driven by customers with high ratings

Some sectors within commercial real estate are particularly exposed to higher inflation, supply chain challenges and increasing interest rates

Strong focus on customers' solvency ratio, debt service and interest rate sensitivity

LTV levels remain low and have declined over the past years

Mortgage lending by property type



Average LTVs by business sectors

	2019	H1/2023
Private rental	62%	**53%**
Commercial	52%	**48%**
Agriculture	62%	**56%**

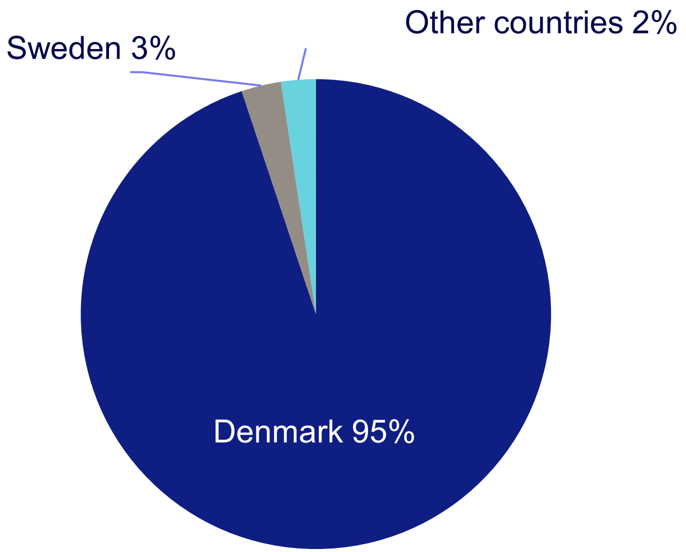
Increased focus on the Swedish real estate market

The Swedish real estate market is particularly exposed to the rising interest rates and high inflation due to the reliance on short-term financing

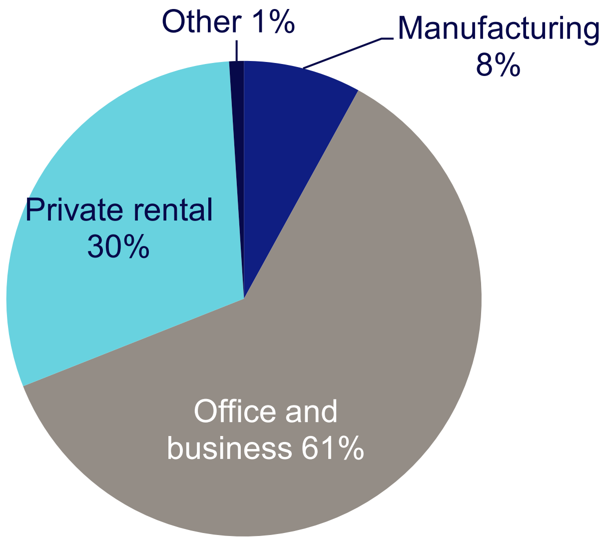
Nykredit has sharpened its focus and approach to financing in Sweden:

- Virtually all exposures are mortgage lending secured by real estate
- Geographical concentration around the three largest cities
- Credit quality remains strong despite deteriorating property market and macroeconomic outlook
- Nykredit is focused on mitigating refinancing risks
- Nykredit has been active in Sweden for more than 20 years and never experienced any loan losses

Lending in Sweden amounts to 3% of total mortgage lending



Swedish mortgage loan portfolio

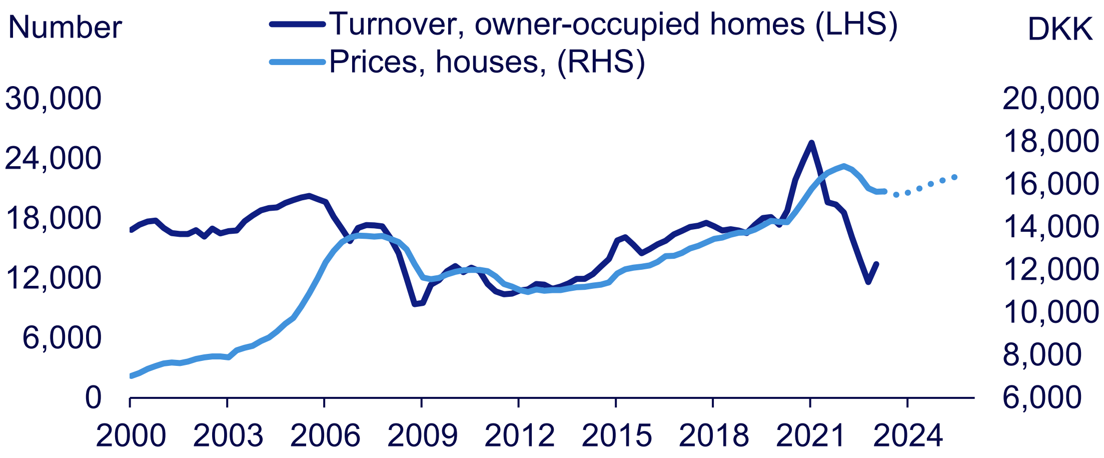


Largest housing price declines are behind us

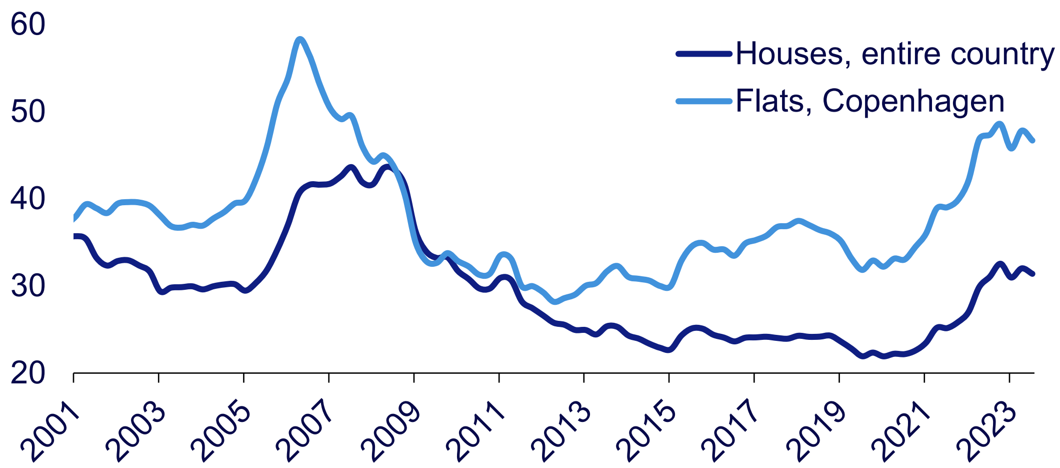
- House prices and flat prices on a national level are down with approx 7% since the peak in summer 2022
- Since March 2023 house prices have remained largely unchanged, while flat prices have been rising
- Sales activity has improved slightly but remains lower than pre-covid levels
- The largest price declines are behind us
  - House price declines of 1-3% on a national level are expected this year, to be replaced by house price increases in 2024
  - The largest price corrections are expected in the areas in and around Copenhagen
- Despite higher household income, increasing interest rates have made it considerably more expensive to buy a home

Source: Macrobond, Statistics Denmark, boligsiden.dk and Nykredit., seasonally adjusted.

Home sales per quarter and prices per sqm



Housing costs, % of disposable income



Danish homeowners are robust

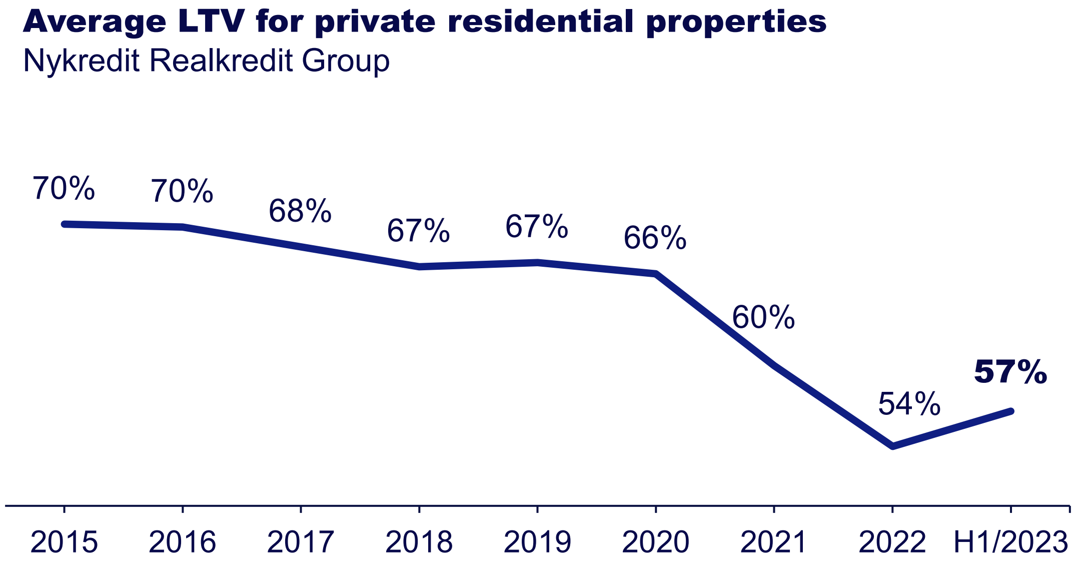
LTV ratios for mortgage debt increased in H1/2023 driven by lower property prices

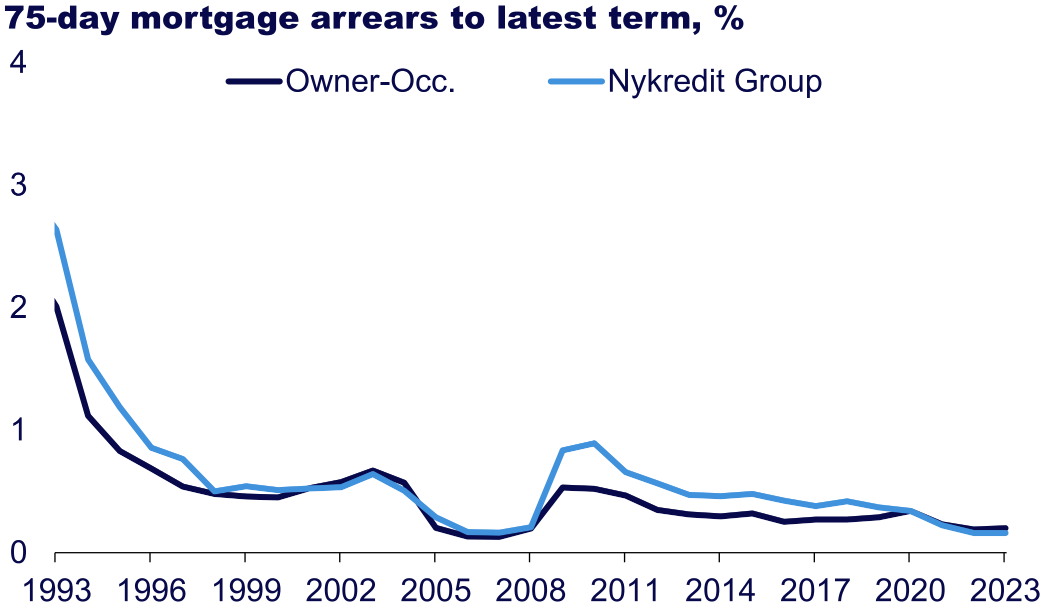
Danish households are robust with large accumulated savings and unemployment remain low at 2.8%

75-day mortgage arrears remains low

First-time buyers challenged on affordability

We are vigilant on housing cost burden, inflation and sub-markets which are more exposed to housing price declines





Nykredit is acknowledged for its high ESG ambitions

In 2022, Nykredit set ambitious 2030 climate targets and joined the Science Based Target initiative (SBTi) as the first large bank and mortgage institution in Denmark

Nykredit's own carbon footprint has already been reduced considerably, and we strive to further reduce emissions from our activities

In 2023, we launched a number of new initiatives targeted at our personal as well as business customers to support the green transition:

- Green savings account
- Green transport leasing for businesses
- Customers can see ESG key figures in their online bank investment overview
- Campaign to help SMEs make carbon footprint calculations and sustainability reports

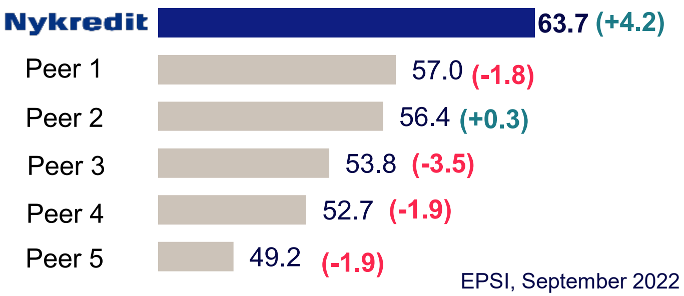
It is our ambition to further strengthen our advisory services and expand our range of green products in 2023

Nykredit has issued DKK 35bn of green bonds for green buildings, renewable energy and energy distribution

Nykredit ranked in top 10 in Europe's Climate Leaders 2023 list

FT FINANCIAL TIMES statista CLIMATE LEADERS 2023

Sustainability index



EPSI, September 2022

MSCI upgraded Nykredit's ESG rating

MSCI ESG RATINGS AAA

CCC	B	BB	BBB	A	AA	AAA

Financial performance, credit and funding

CFO David Hellemann

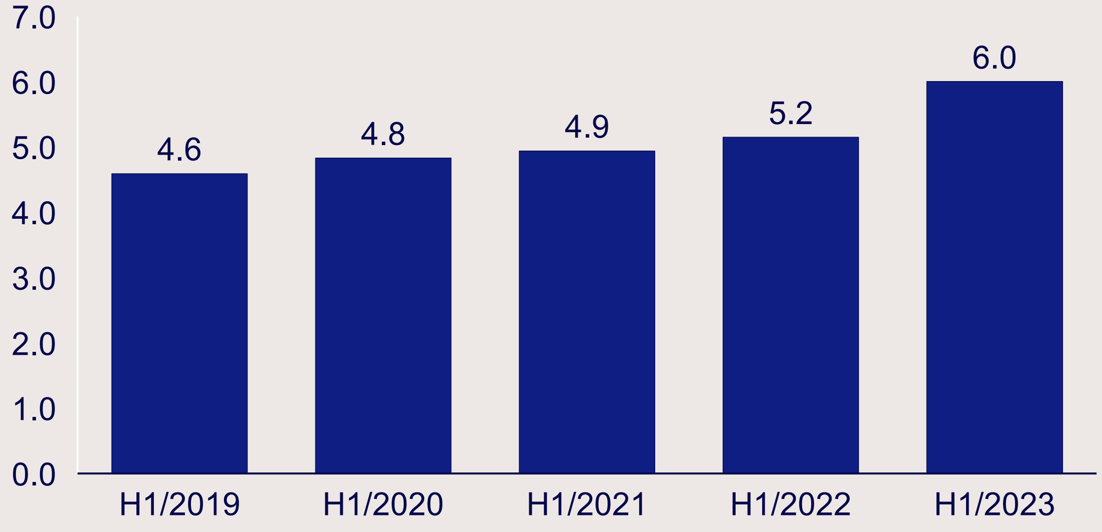
Group income statement – H1/2023 vs H1/2022

DKKm	H1/2022	H1/2023	Change	
Net Interest Income	5,152	6,005	17%	Driven by increased deposit margins due to higher interest rates as well as volume growth in bank and mortgage lending
Net Fee Income	1,415	1,306	-8%	Decreased due to significantly lower remortgaging activity but positively impacted by high lending activity driven by large corporates
Wealth Management Income	1,171	1,197	2%	Increased due to higher AuM driven by positive value adjustments and inflow of new funds
Customer benefits & capitalisation costs	-484	676		Positively impacted by interest on equity capital which offsets interest expenses on bail-inable debt
Trading and Investment portfolio	-41	813		Increased due to positive value adjustments on strategic bank shares as well as spread tightening on Danish covered bonds
Costs	3,094	3,213	4%	Up due to increasing costs of payroll, digitalization, IT, etc.
Impairment charges	-226	-115	-49%	Reversal of impairment charges in H1/2023, as underlying credit quality remains strong
Business profit	**4,344**	**6,898**	**59%**	
Legacy derivatives	670	32	-95%	Positive value adjustments in H1/2023 but lower compared to a strong H1/2022, which was driven by a significant increase in interest rates
Profit before tax	**5,015**	**6,930**	**38%**	
Profit after tax	**4,057**	**5,391**	**33%**	**Full-year guidance revised upwards to DKK 9.75 – 10.75bn**

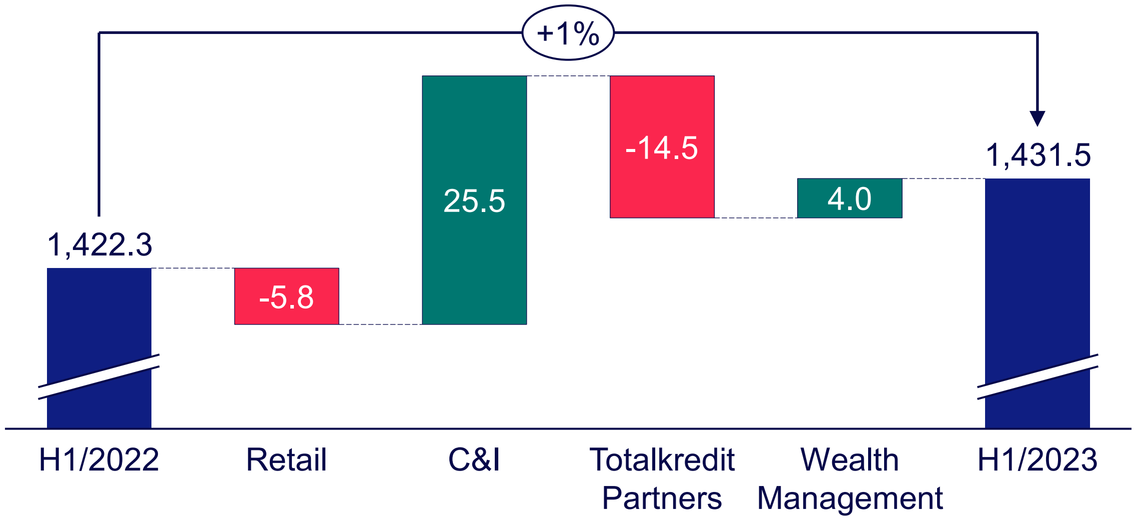
Net Interest Income up 17% driven by higher interest rates and volume growth

- NII positively impacted by increasing deposit margins driven by higher interest rates
- Consistent growth in NII from higher loan volumes driven by C&I
- Average margins on mortgage loans remain under pressure due to a reduction in customers' mortgage debt from remortgaging surge

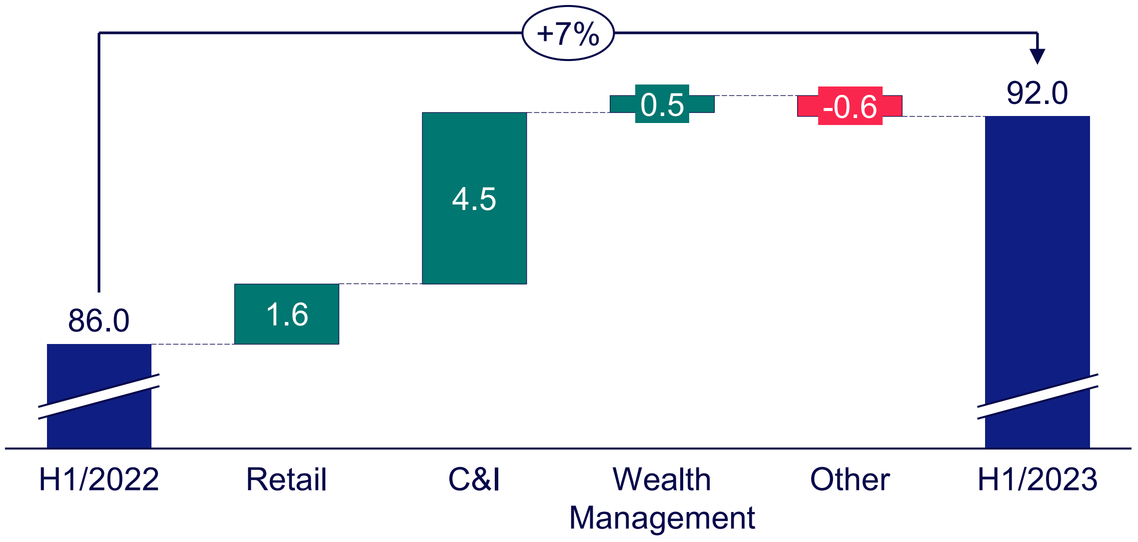
NII, DKKbn



Mortgage lending, DKKbn



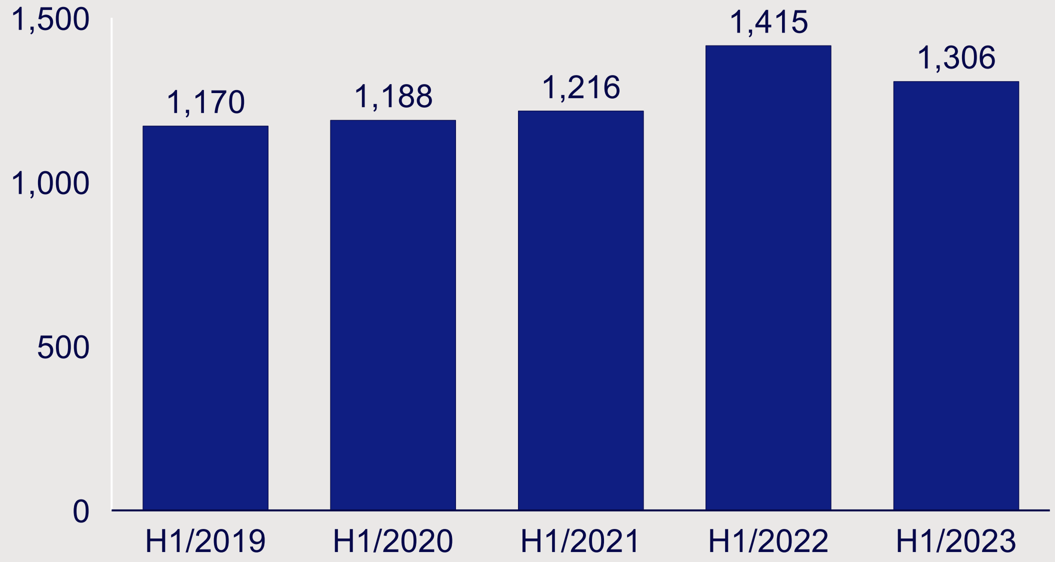
Bank lending, DKKbn



Net fee income down 8% due to lower mortgage activity

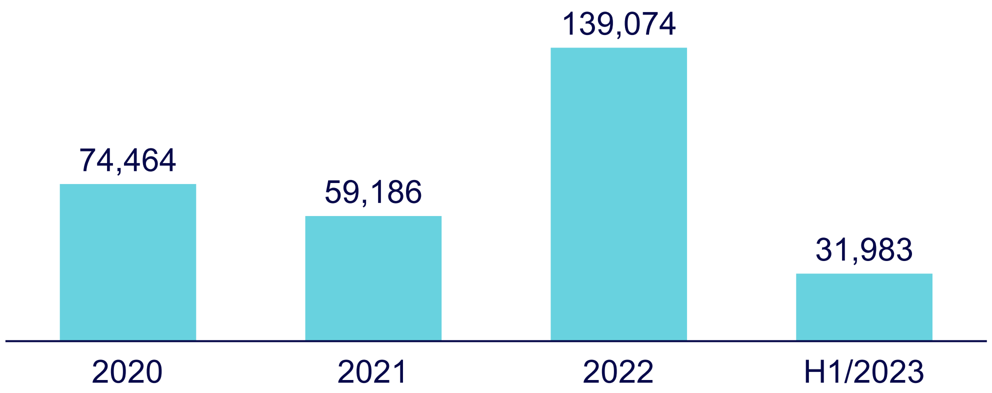
- Fee income affected by a significantly lower remortgaging activity in H1/2023
- NFI positively impacted by a high banking activity driven by large corporates

Net Fee Income, DKKm

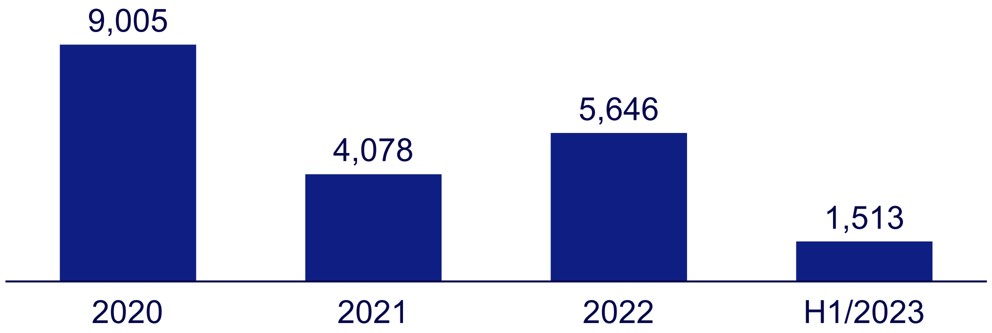


Remortgaging activity – no. of loans

Retail customers



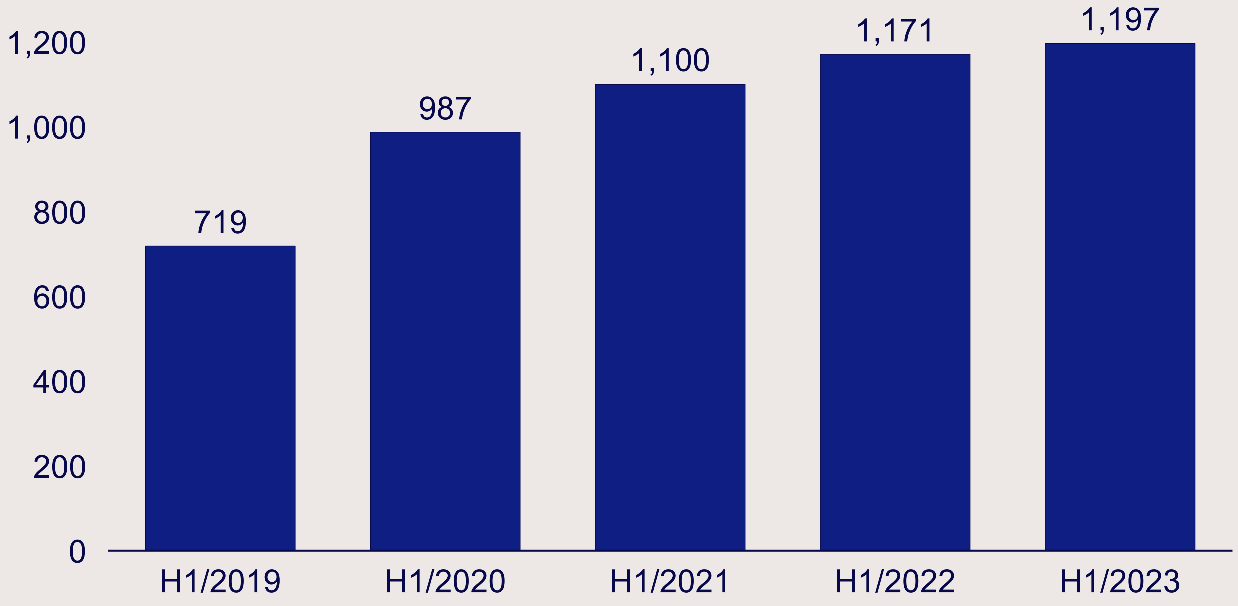
Business customers



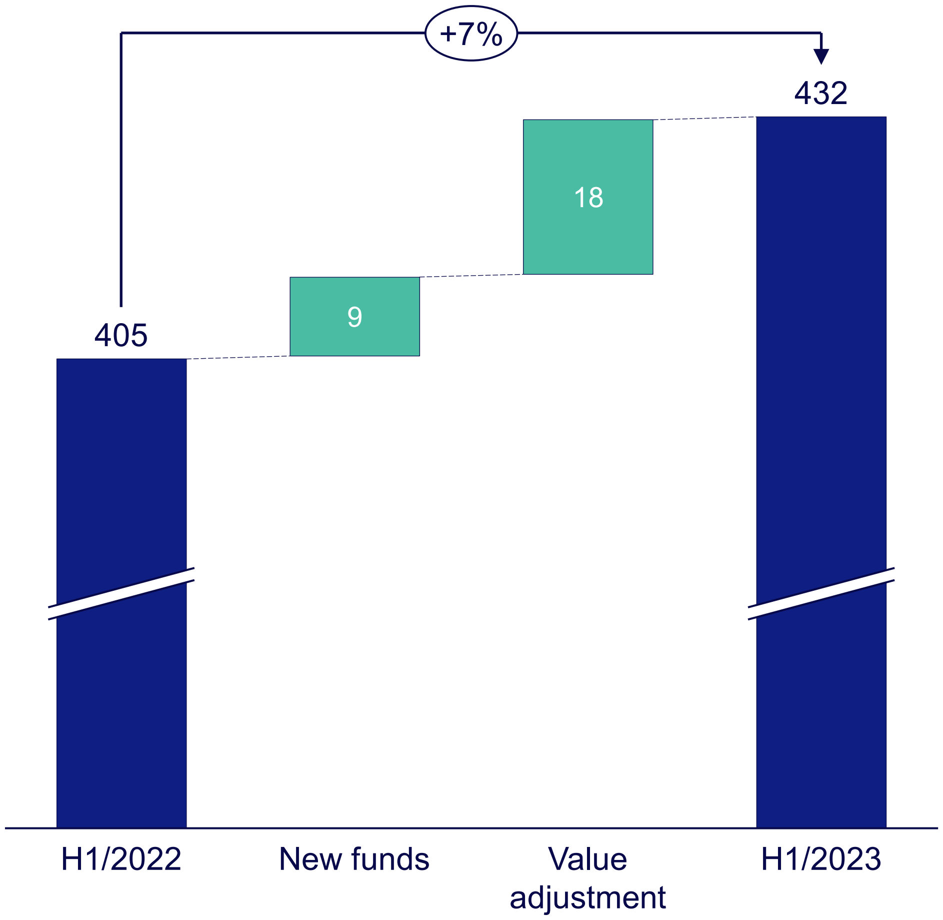
Wealth Management Income up 2%

- Income growth driven by an increase in average volumes
- AuM up 7% since H1/2022 driven by positive value adjustments as well as inflow of new funds
- New long-term owner and partnership model with the Sparinvest partners

Wealth Management Income, DKKm

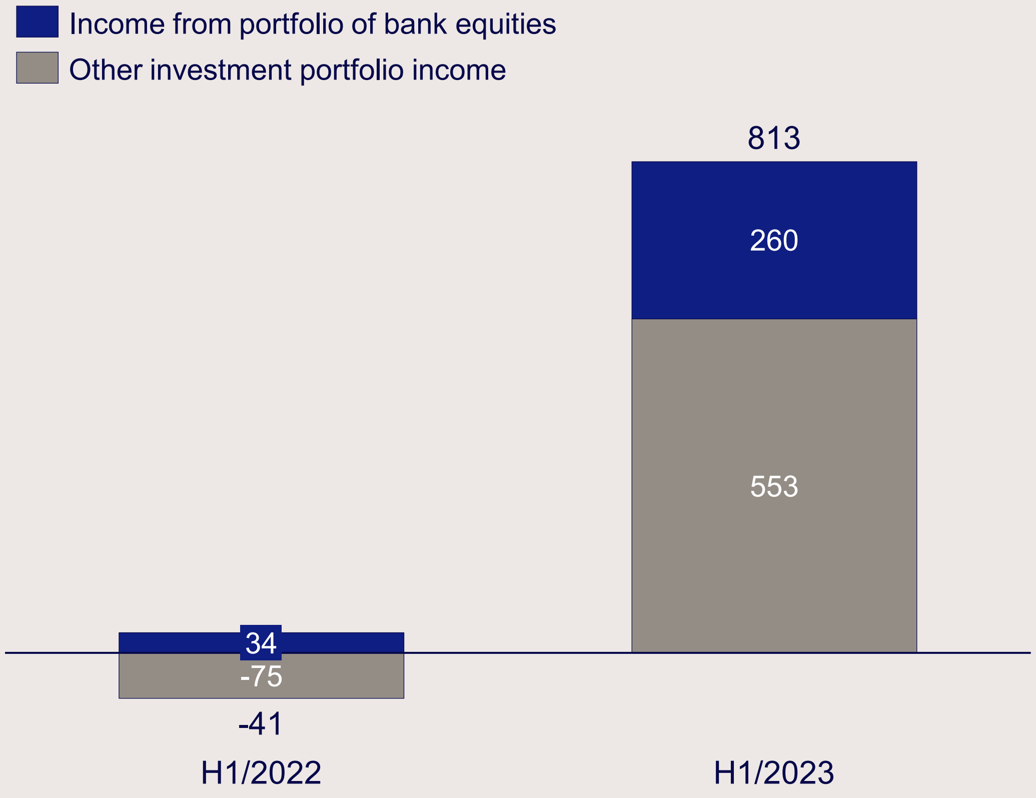


Assets under Management, DKKbn



Trading and investment income

Trading and investment portfolio income, DKKm

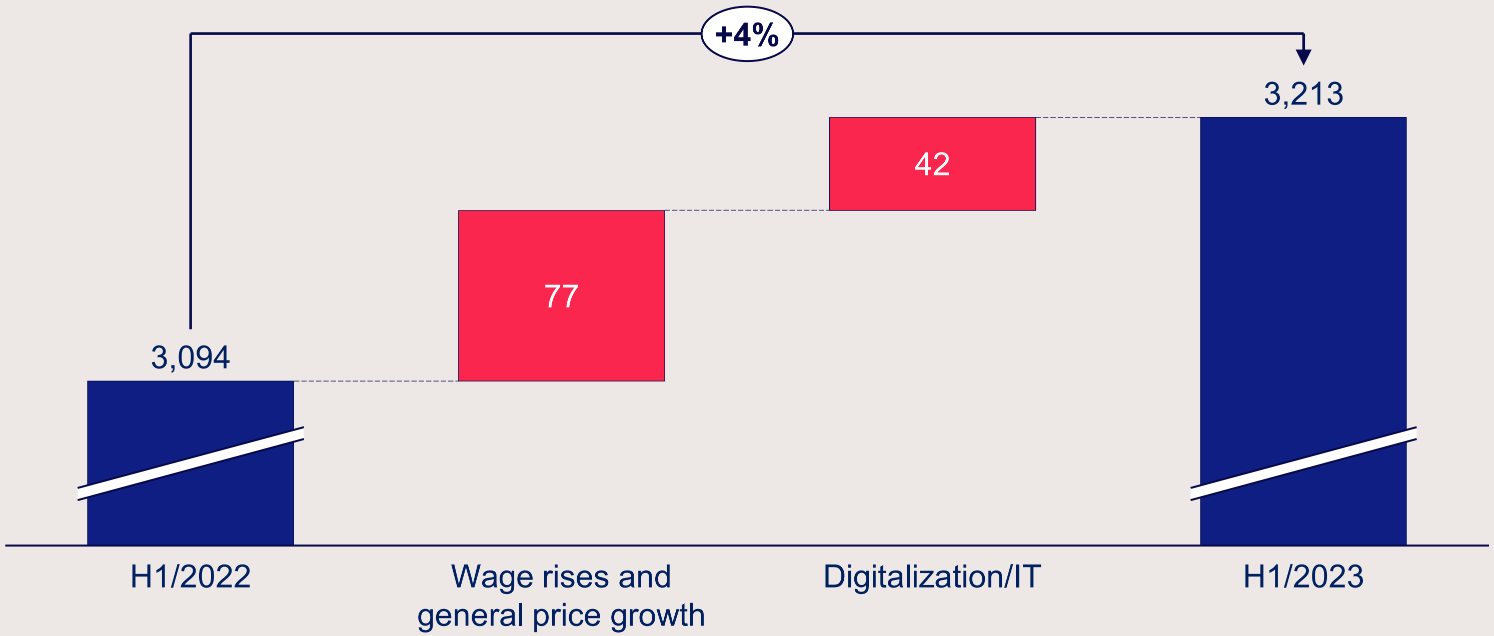


- Trading and investment portfolio income of DKK 813m in H1/2023
- Higher income from the portfolio of strategic bank shares driven by positive value adjustments
- Other investment portfolio income
  - The portfolio of Danish floating-rate covered bonds was impacted by positive value adjustments due to spread tightening
  - Positive value adjustments on swaps

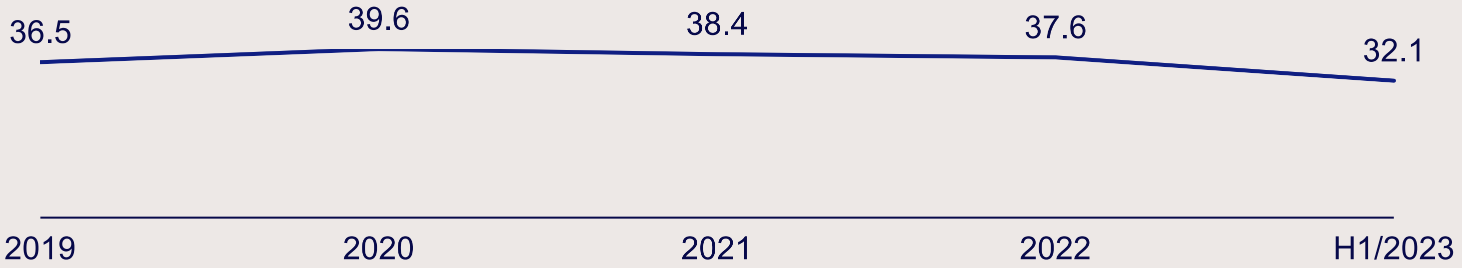
Cost development driven by inflation

- Costs are up DKK 119m or 4% compared to H1/2022
- The main driver was an increase in wages and general price growth driven by higher inflation
- DKK 42m relates to an increase in costs related to digitalization/IT
- The average headcount declined by 65 to 3,977 due to lower activity levels and efficiency initiatives

Change in costs from H1/2022 to H1/2023, DKKm



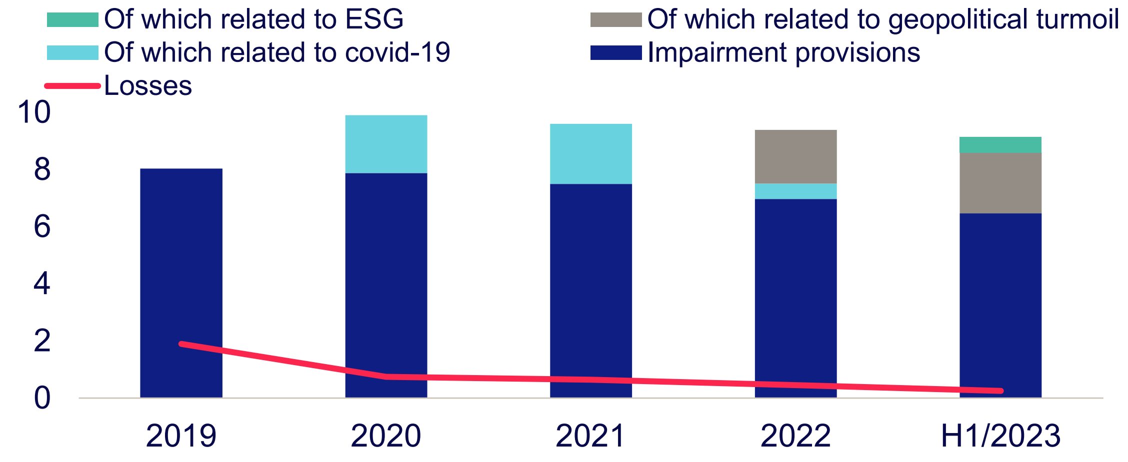
Cost:Income ratio, %



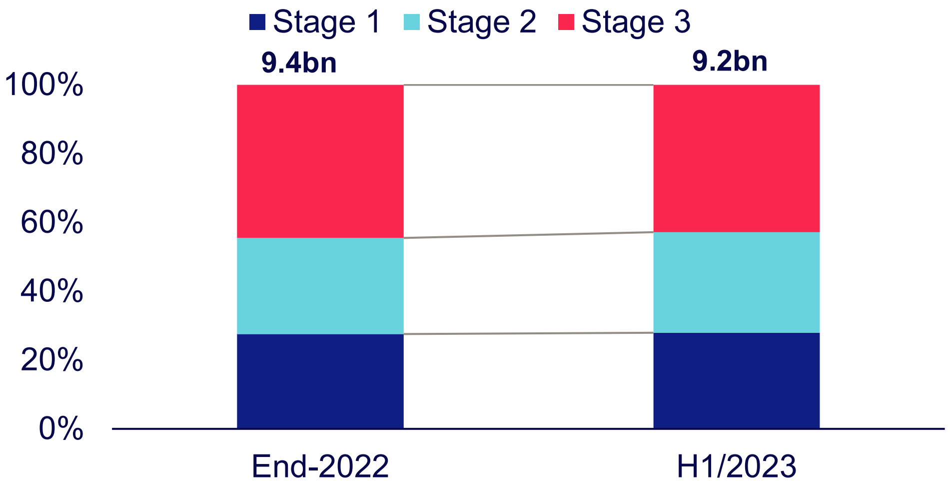
Strong buffer for potential headwind

- Virtually no losses incurred in the past 3-4 years
- Declining level of impairment provisions due to favourable economic conditions and improved credit quality
  - No major transitions in impairment provisions between stages
- Provisions for covid-19 have been reversed and replaced by new reservations of DKK 2.1bn for potential losses from geopolitical uncertainty
  - Strong focus on particularly exposed sectors and customers to ensure that signs of weakness are addressed in the credit process
- New provisions of DKK 0.6bn related to transitional risks from ESG
- Total loss reserves amount to DKK 9.2bn

Nykredit Group total loss reserves, DKKbn



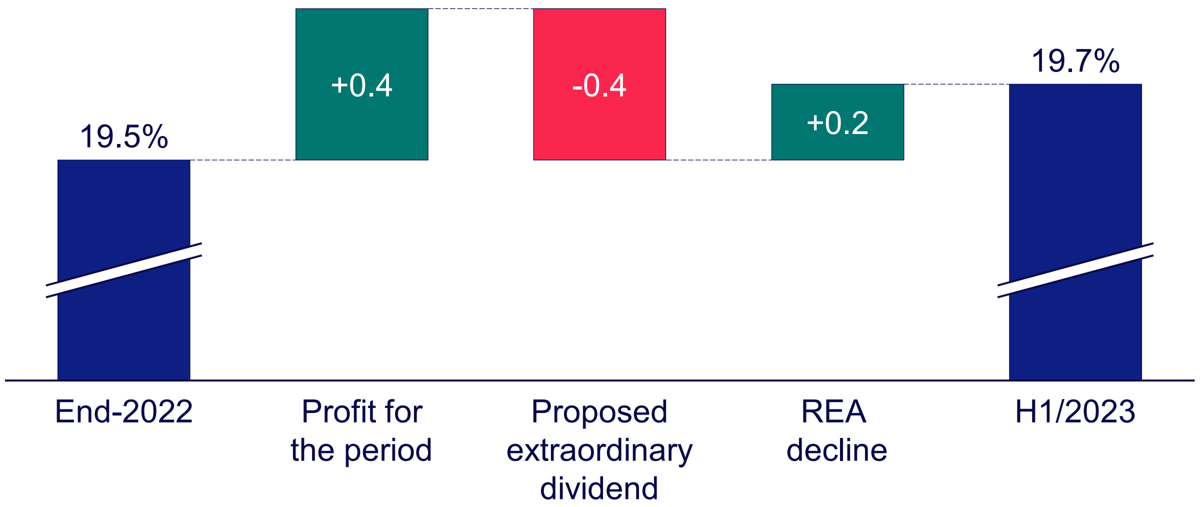
Development in loss reserves by stage, DKKbn



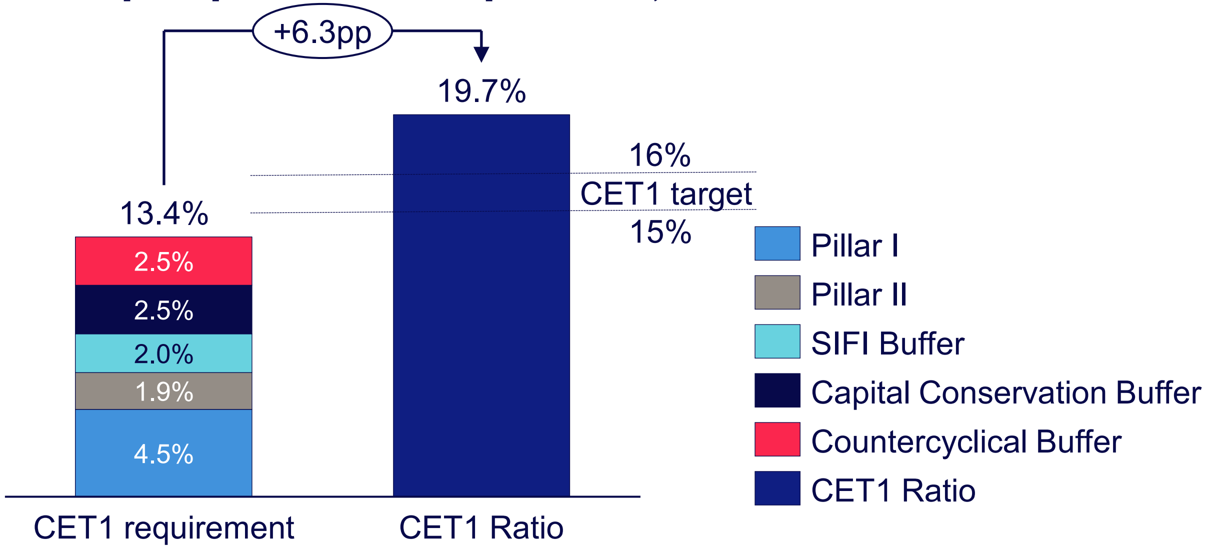
Strong capitalisation

- The CET1 ratio of 19.7% is some 420bps above policy target:
  - In March 2023, Nykredit distributed dividend of DKK 4.65bn corresponding to 50% of net profits for 2022, which is in line with the Group's dividend policy
  - In August 2023, the Board of Directors has proposed additional dividends of DKK 1.85bn
  - The capital excess is related to Nykredit's CET1 capital reserve for the future impact of Basel IV
- Nykredit's capital policy target includes an incremental buffer of 400bps for a hard macro stress on top of the capital buffers based on the results of both FSA and EBA stress tests

CET1 capital ratio



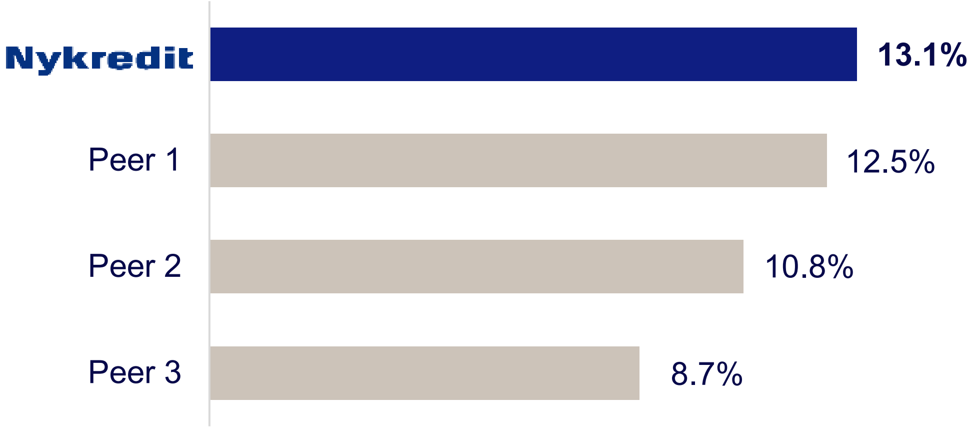
CET1 capital position and requirement, H1/2023



Nykredit's strong resilience is demonstrated in EBA stress test

- As demonstrated in the EU-wide stress tests conducted in July 2023, Nykredit is resilient to withstand even a very severe macroeconomic downturn, including property price declines of more than 30% over the next three years
- Nykredit's CET1 ratio will drop to 13.1% in 2024 and 13.7% in 2025 in the EBA stress scenario compared to a regulatory CET1 requirement of 13.5%
- In contrast to the typical approach, the EBA does no longer assumes that the countercyclical buffer of 2.5% in Denmark is released during stress
- Including a released countercyclical buffer in line with the approach of the Danish FSA, Nykredit will have excess coverage of 2.1 and 2.7 percentage points to the regulatory CET1 requirement in 2024 and 2025, respectively

CET1 ratio including effect of EBA stress test (worst year in adverse scenario)

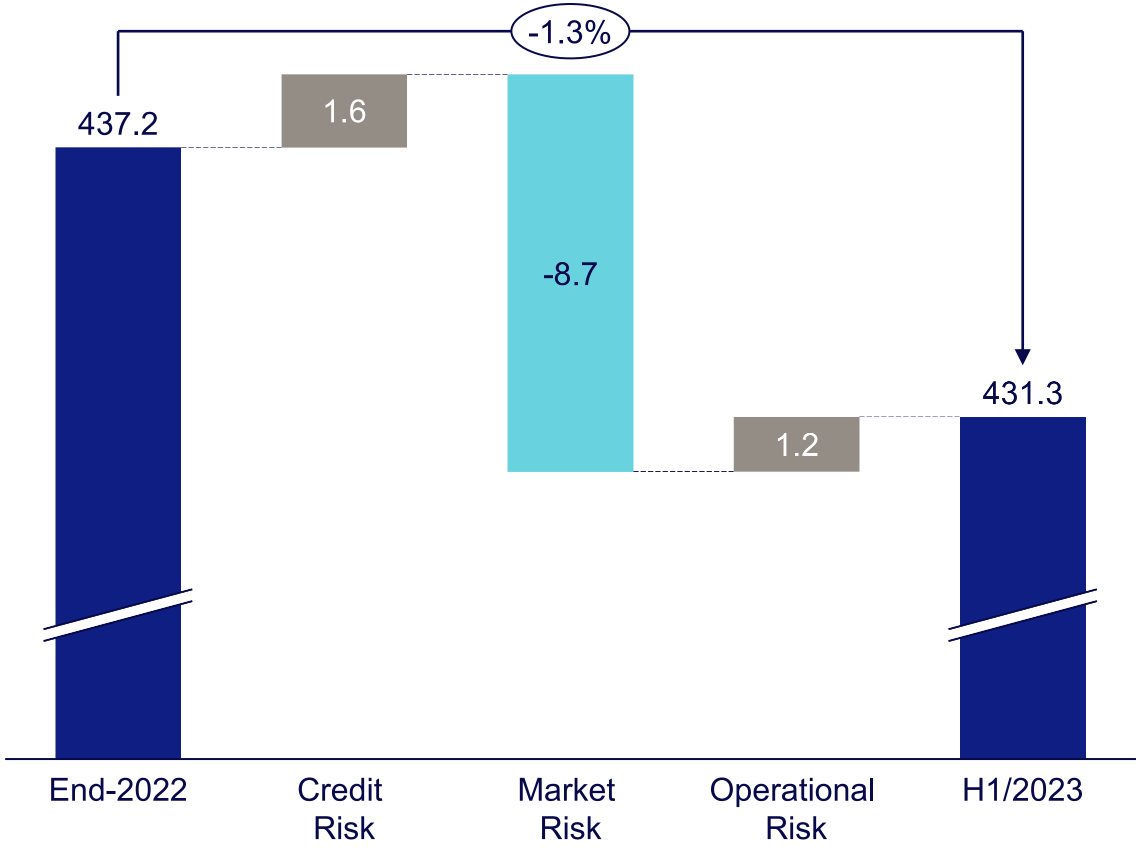


Note: Peers under Danish FSA supervision include Danske Bank, Jyske Bank and Sydbank.

Risk exposures declined in H1 but upward pressure remains

- In H1/2023, the risk exposure amount declined by DKK 6bn or 1.3%
- Market risk has declined due to reduced interest rate risk and lower yield spread risk compared to last year
- Risk exposures from credit risk show a net increase driven by higher business lending. It includes the impact of the IRB model development
- Credit risk reflects continuing low arrears and overdrafts. However, a deterioration of economic trends is expected to increase risk exposures for credit risk, which is factored into Nykredit's capital planning
- Any interest rate change will affect the risk exposure amount due to value-adjustment of outstanding mortgage debt

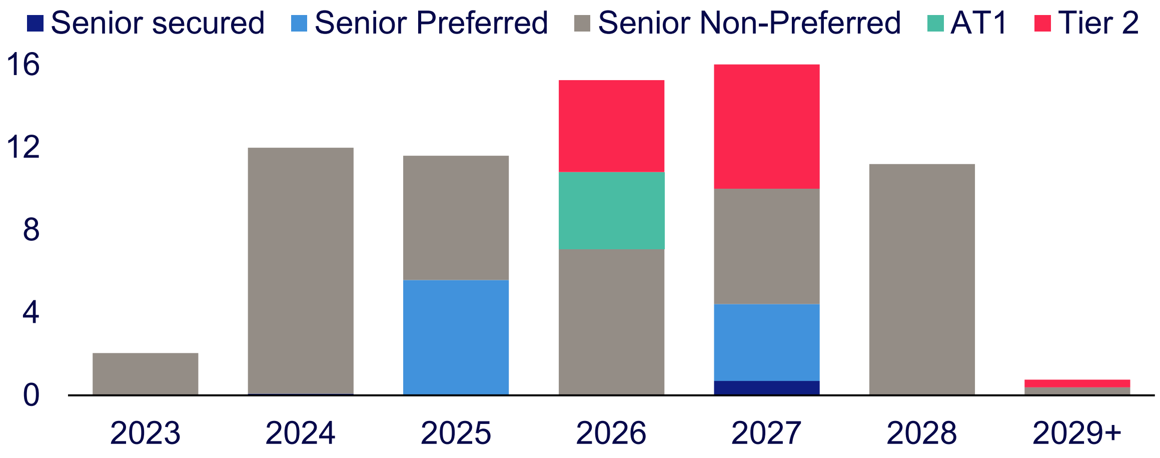
Risk Exposure Amount (REA), DKKbn



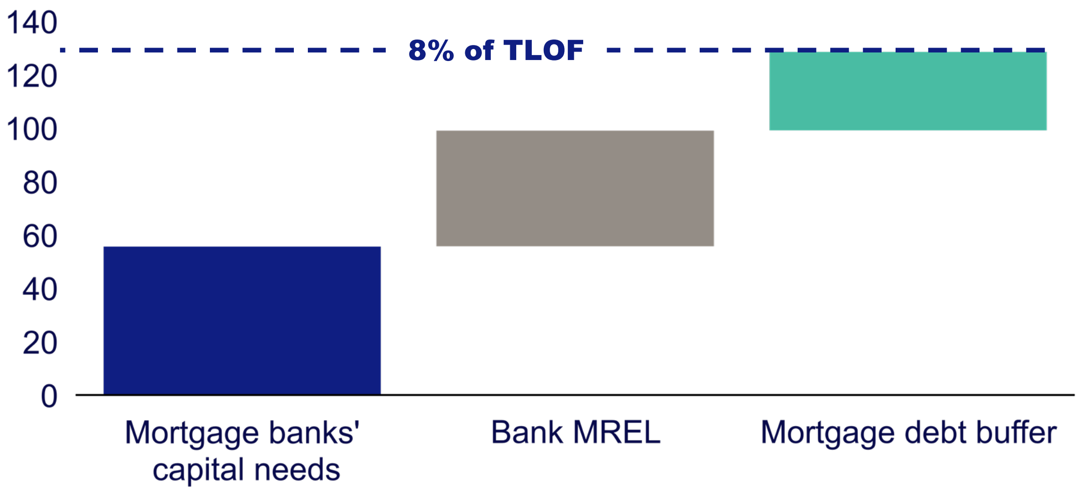
Funding plans driven by refinancing

- The main driver of Nykredit's funding needs (excluding covered bonds) is the requirement to have sufficient regulatory bail-inable instruments, which include
  - Debt buffer of 2% of mortgage lending
  - The debt buffer, own funds and MREL eligible liabilities combined must amount to at least 8% of TLOF
- Due to higher expected REA, the total regulatory requirement may exceed 8% of TLOF as a result of rising capital requirements
- Therefore, issuance will be driven by expected REA inflation as well as refinancing
- DKK 5.7bn has been issued in 2023 in SNP format
- Nykredit expects to issue DKK 5-10bn in addition to the issuance of covered bonds in the remaining part of 2023
- We will be conducting our quarterly refinancing auctions of short-dated covered bonds of approx DKK 47bn in total next week

Nykredit Group maturity* profile, DKKbn



Composition of regulatory requirement for bail-inable instruments



* For capital instruments first call date. Covered bonds are not included. Source: Nykredit company reports.

Summary

Strong results and income from business	■ Highly satisfactory profit after tax of DKK 5.4bn driven by core income lines, net interest from capitalisation and investment portfolio income ■ Core income is up 10%, primarily driven by increasing deposit margins, continued volume growth and wealth management income ■ High trading and investment income as well as positive net interest from equity capital
Volume growth	■ Volume growth in mortgage and bank lending primarily driven by the largest corporates and institutions clients ■ Lower mortgage activity from personal customers due to a slowdown in the property market
Credit quality	■ Customers remain financially robust despite geopolitical uncertainty, higher interest rates and inflation which resulted in a net reversal of impairment charges amounting to DKK 115m ■ Provisions of DKK 2.1bn for losses related to geopolitical uncertainty remain intact
Costs	■ Costs increased primarily driven by wage rises and general price growth due to higher inflation ■ Cost/income ratio of 32%, which is well below Nykredit's cost/income target of 40%
Guidance for 2023 and dividends	■ Guidance for profit after tax for 2023 has been revised upwards to DKK 9.75 – 10.75bn ■ Extraordinary dividends of DKK 1.85bn have been proposed in August 2023

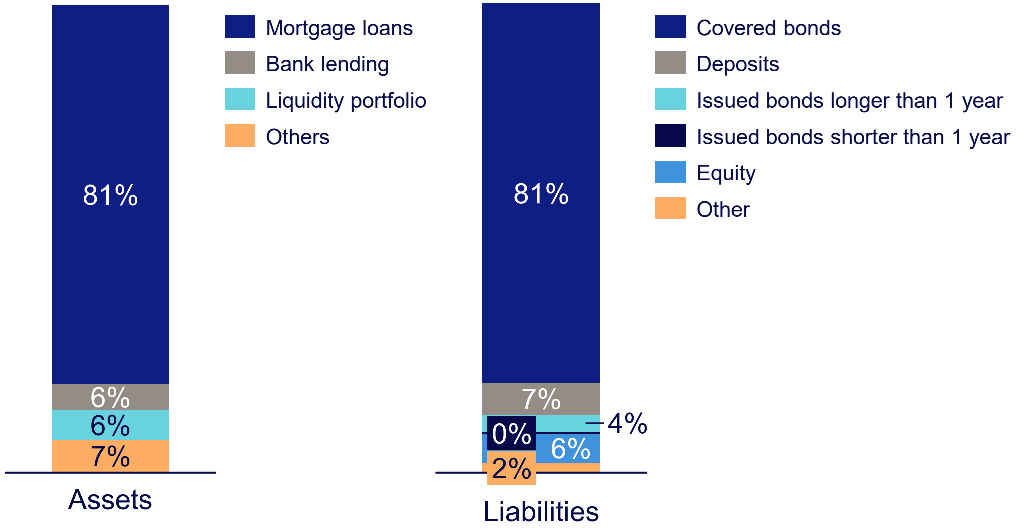
Appendix

Funding and liquidity

- Nykredit's balance sheet is largely fully matched due to the pass-through mortgage structure in Denmark
- Remaining assets are primarily funded by stable long-term liabilities, equity and deposits
- Nykredit Bank is running a deposit surplus, which supports the bank's liquidity ratios
  - Deposits from full-service retail customers amount to approx 60%
  - Approx 50% of deposits are covered by the deposit guarantee scheme
  - In addition to deposits, Nykredit Bank's other main funding sources are loans from Nykredit Realkredit to cover the MREL requirement, and own funds
- Nykredit has substantial liquidity reserves as illustrated by the liquidity coverage ratio's

* For capital instruments first call date. Covered bonds are not included. Source: Nykredit company reports.

Nykredit's balance sheet is largely matched



Nykredit's Liquidity Coverage Ratios, %

	H1/2023	Q4/2022
Nykredit Group	373	283
Nykredit Bank	215	205

Nykredit's Net Stable Funding ratio, %

	H1/2023	Q4/2022
Nykredit Group	152	157

Q1 vs. Q2: Income down 7% due to lower mortgage activity

Growth in core income lines

- Overall income down 7% Q/Q
  - NII increased 8% due to higher interest rates
  - Net fee income down 8% due to lower mortgage activity
  - Wealth management income up 5% driven by inflow of new funds and positive value adjustments
  - Trading and investment portfolio income down due to negative value adjustments on the portfolio of strategic bank shares
- Costs down 4% due to lower costs of electricity/heating etc
- Impairment charges was a reversal of DKK 81m due to continued strong credit quality
- Business profit of DKK 3,232m compared with DKK 3,551 in Q1/2023
- Legacy derivatives recorded a gain of DKK 43m
- Profit after tax of DKK 2,591m compared with DKK 2,799m in Q2/2023

Business results Q1/2023 vs Q2/2023

DKKm	Q1/2023	Q2/2023	Index
Income	5,189	4,807	93
- Net interest Income	2,883	3,121	108
- Net fee income	680	626	92
- Wealth management income	583	614	105
- Net interest from capitalisation	460	431	94
- Net interest income fr. customer benefit programmes	-117	-99	85
- Trading, investment portfolio and other income	700	114	16
Costs	1,638	1,575	96
Business profit before impairment charges	3,551	3,232	91
Impairment charges	34	81	239
Business profit	3,585	3,313	92
Legacy derivatives	-11	43	-
Profit before tax	3,574	3,356	94
Tax	775	764	99
Profit after tax	2,799	2,591	93

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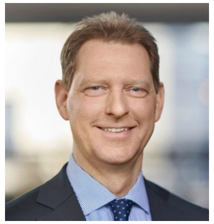

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