

# Nykredit Green Bonds

Green Covered Bonds  
Investor presentation

11 April 2019



# Executive summary

## 1

### Rationale



- Nykredit is Denmark's largest lender. Nykredit is established by our customers for our customers and still to this day primarily mutually-owned.
- Hence, we feel a responsibility for doing business in ways that create common value for our customers, and the communities we serve and contribute to a long-term, stable and sustainable development
- By issuing Green Bonds Nykredit can underpin the fulfilment of Denmark's and EU's goals on reduction of GHG, the Paris Agreement and UN's Sustainable Development Goals
- The contemplated issuances will:
  - Promote the transition to a low carbon and climate resilient society
  - Support the development of sustainable investment opportunities for investors
  - Support the development of the green bond market
  - Support diversification of the investor base



## 2

### Green Covered Bonds



- Nykredit will issue Green Bonds in the format of Green Covered Bonds
- Nykredit's Green Bond Framework is structured in line with the ICMA's Green Bond Principles 2018, focusing on green buildings
- The net proceeds will be allocated to:
  - Eligible Green Mortgages financing energy efficient commercial and residential buildings



# Agenda



## 1 Nykredit – An Introduction

## 2 Responsibility in Nykredit

## 3 Green Bond Framework

## 4 Appendix

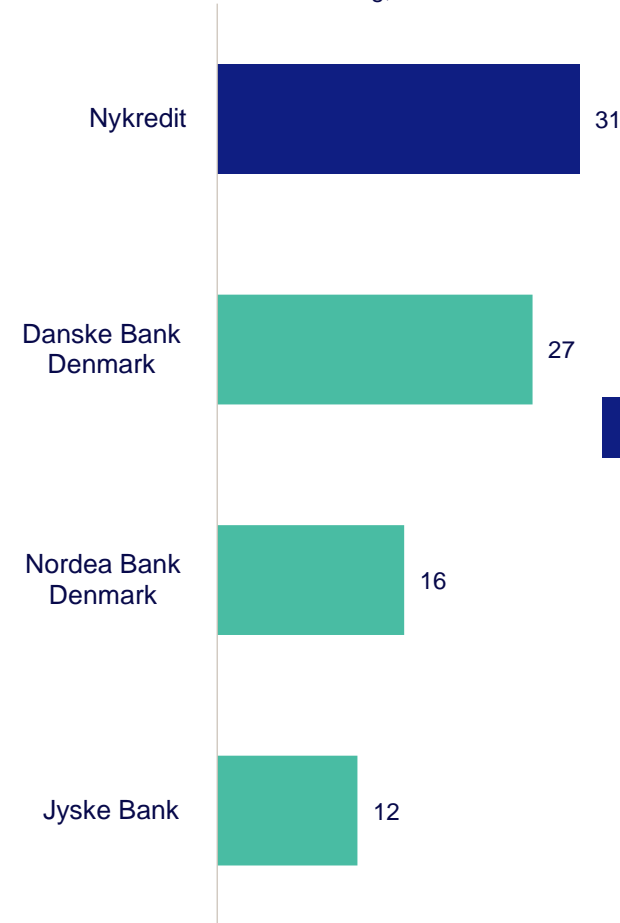
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# Nykredit is the largest lender in Denmark

- Nykredit is Denmark's largest domestic lender with a 31% overall market share
- Europe's largest issuer of mortgage covered bonds with a more than 165 year track record
- Total lending amounted to DKK 1,232bn at end-2018 and profit after tax for 2018 was DKK 5.7bn

## The largest lender in Denmark

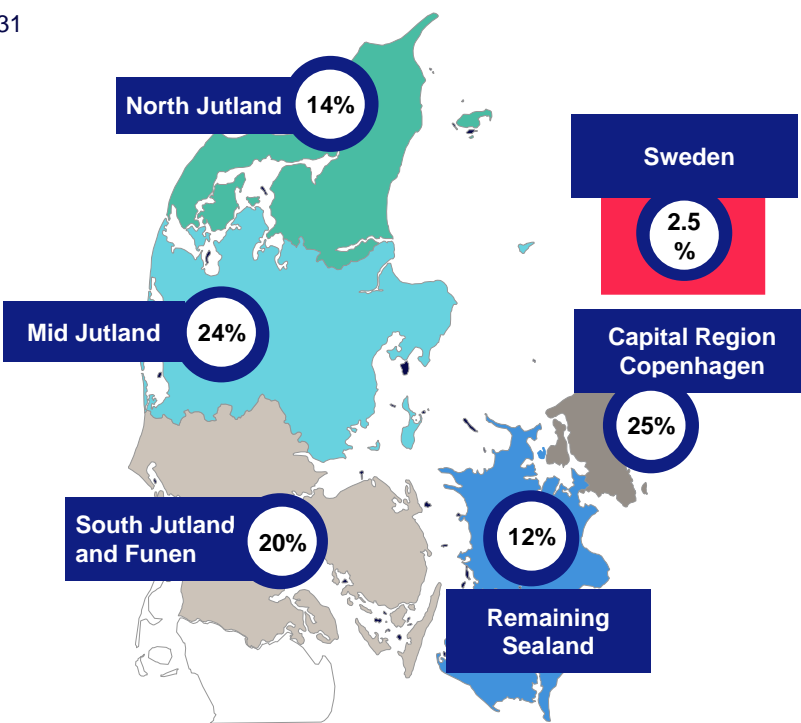
Market share of total Danish lending, %



Source: Danish FSA, MFI Statistics

## 95% of our lending is mortgage lending

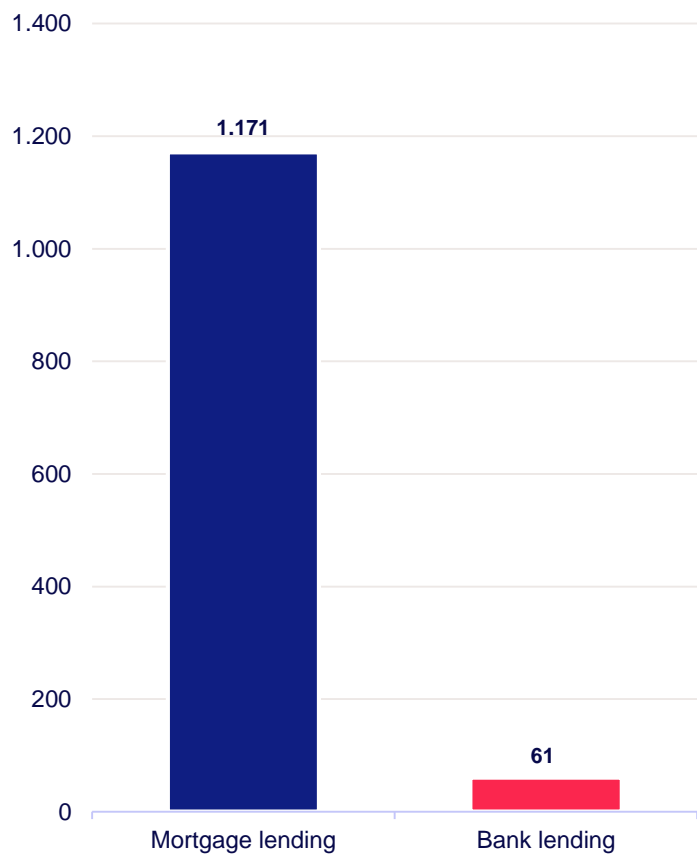
Mortgage lending split on Danish regions and Sweden



The remaining 2.5% of Nykredit's mortgage lending is in Finland, France, Germany, Greenland and Spain

## Focused on prime mortgages, 2018, DKKbn

Total lending

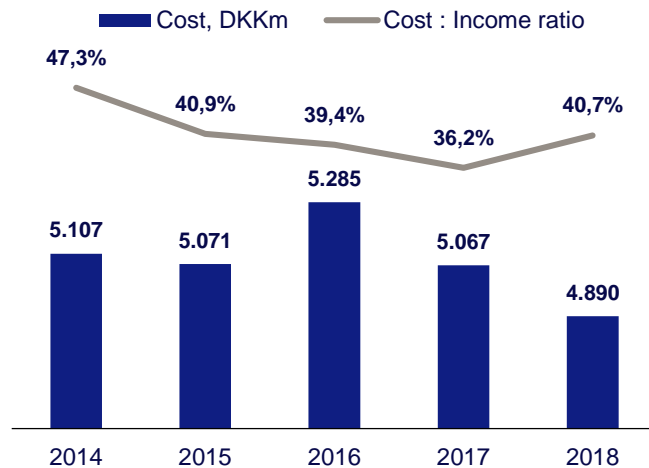


Even though our bank lending is a minor proportion of our total lending we are also a full service bank for retail and corporate clients

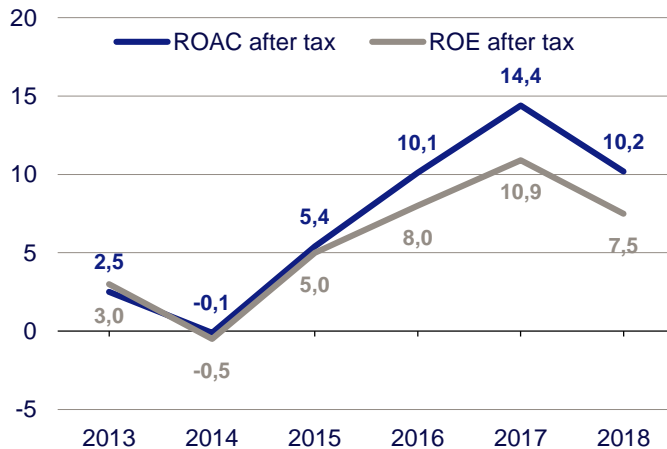
# Low costs, strong capitalisation and top rated covered bonds

- Nykredit has strengthened profitability and lowered the costs as efficiency has been improved in recent years
- Nykredit has a conservative capital policy and is a rare example of an institution, that has already fully set aside capital for the impact of Basel IV
- Strong credit ratings underpins access to funding and ability to keep lending

## Cost:Income ratio



## ROE and ROAC



\* Based on CET1 target of 16%

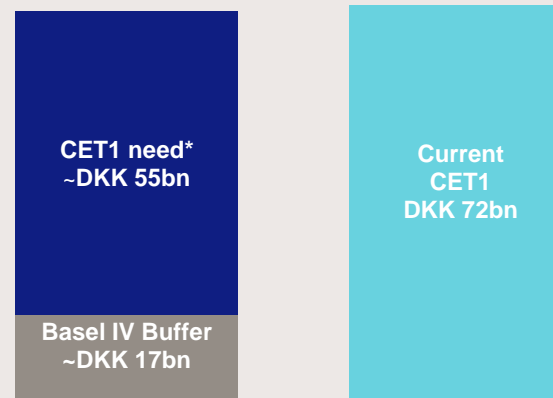
**Nykredit**

## Capital

### Nykredit Group capital policy

Total legal requirement	10.0 – 10.5%
Stress testing requirement (New FSA approach)	4.0%
Management buffers	1.0 – 1.5%
Buffer for reduced capital flexibility of investor model	0.5%
<b>Capital policy, CET1</b>	<b>15.5 – 16.5%</b>
<b>Total capital policy</b>	<b>20.5 – 21.5%</b>

### CET1 and Basel IV buffer



## Financial highlights

Nykredit Group	End-2018
Total assets	1,448bn
CET1 ratio	21.0%
Total capital ratio	23.5%
Leverage ratio	4.9%
Solvency requirements	10.0%

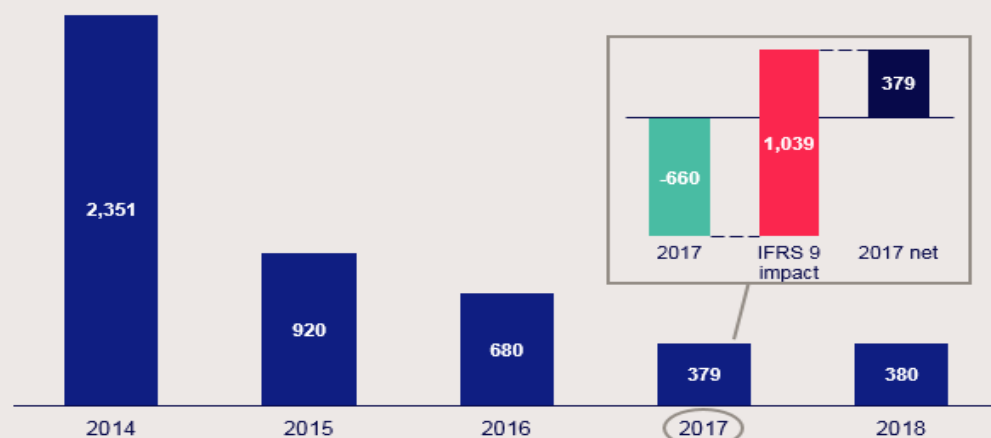
## Nykredit's ratings

	S&P Global	FitchRatings
Covered bonds	AAA	-
Senior unsecured debt	A	A
Short-term debt	A-1	F1
Outlook	Positive	Stable
Senior Non-Preferred	BBB+	A

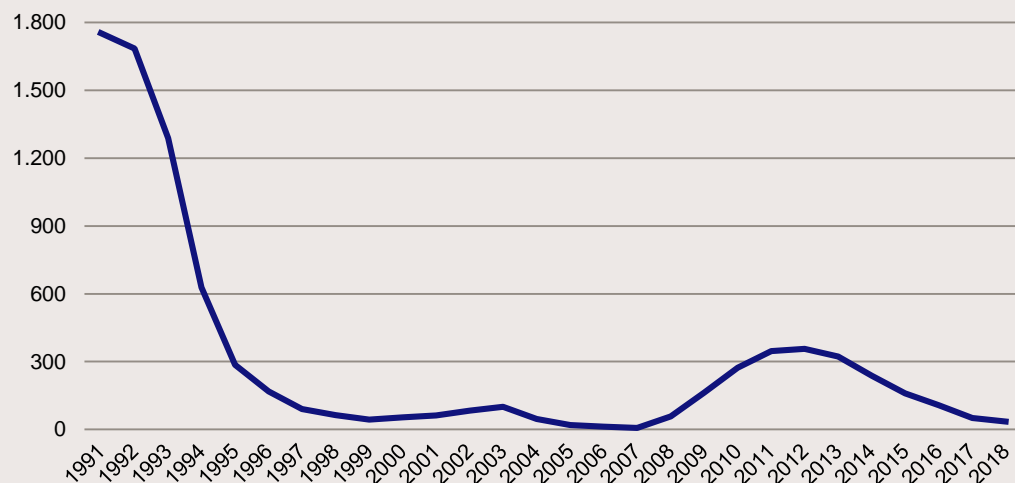
# Strong credit quality

- Nykredit's credit quality is strong with low losses
- The credit quality is a reflection of the strong Danish economy that is growing healthily with low unemployment

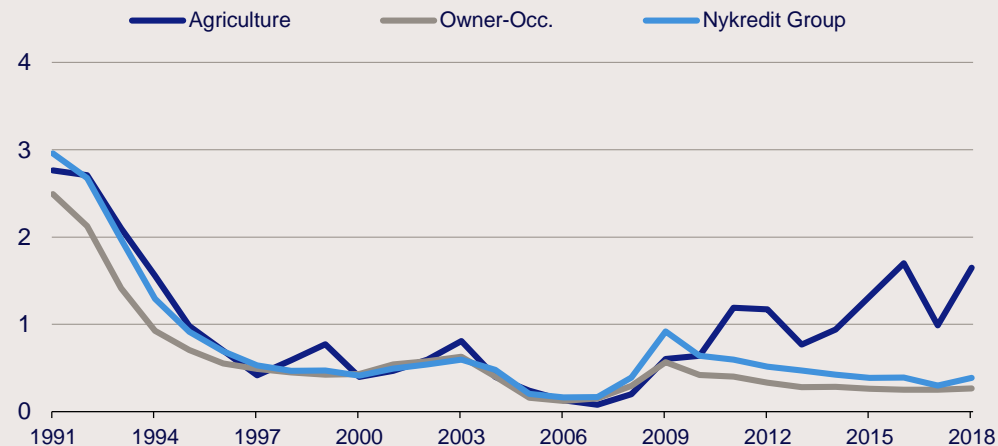
## Impairment charges, DKKm



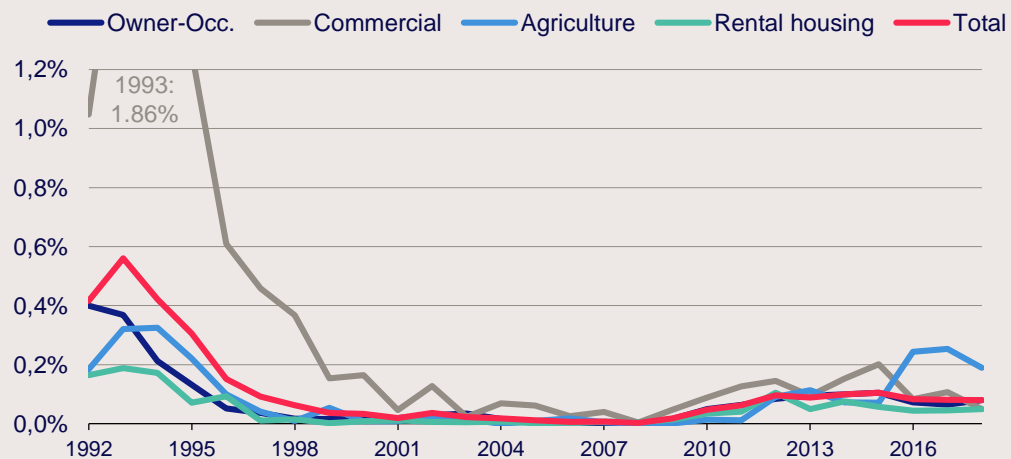
## Stock of repossessed properties, Nykredit Group



## 75 mortgage arrears, %



## Mortgage lending: Write-offs as a % of debt

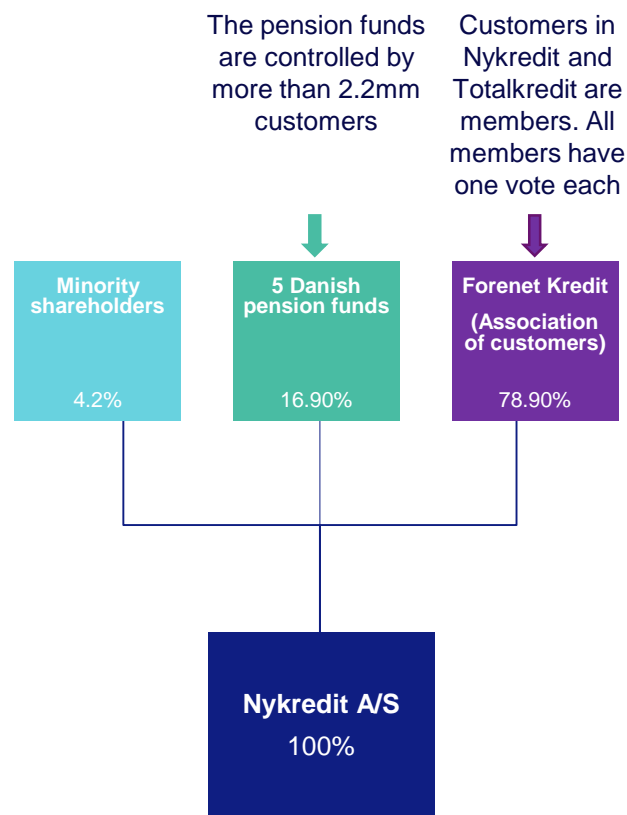




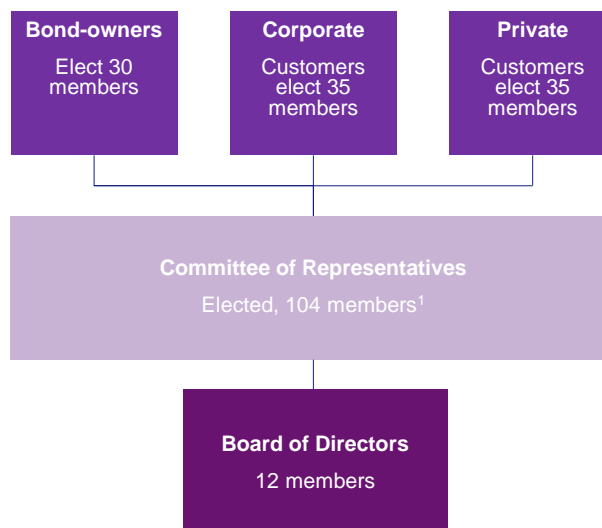
# Nykredit is owned by our customers

- Responsibility is rooted in our history and ownership. We were founded by our customers, for our customers and are still to this day predominately owned by an association of our customers
- Hence, our overarching objective is to run a long-term sustainable and responsible business for the benefit of our current and future customers

## Nykredit is predominantly owned by a mutual, Forenet Kredit



## Forenet Kredit is controlled by our customers



### Key priorities for Forenet Kredit

1. The world's best home loans
2. Mortgage lending – also in times of crisis
3. Loans to future generations
4. Fair loans to all of Denmark
5. We share the profit

Forenet Kredit's sole purpose is to be the principal shareholder of Nykredit. It is committed to support Nykredit's capital position and customer benefits programs

<sup>1</sup> Includes 4 employee representatives from Nykredit A/S

## Forenet Kredit's priorities reflected in Nykredit's core values



### Pledge to our customers

We will help our customers stay on top of their finances and will provide them with opportunities and security. We want to share their dreams and worries and help them find the right solutions.



### Pledge to society

We will be active in all of Denmark and support growth – in urban and rural districts alike – at all times.



### Pledge to our business partners

In collaboration with our partners in the Totalkredit alliance, we want to make a difference to our customers by offering attractive products and effective solutions. We will actively develop the partnership to strengthen our combined competitiveness.



### Pledge to our staff

We will prioritise development and opportunities for skilled and engaged people. We want to be known for our trusting culture guided by customer focus, team spirit and empowerment.



### Pledge to bond investors

As one of Europe's largest bond issuers, we will provide a stable and secure investment opportunity for domestic and foreign bond investors.



### Pledge to our shareholders

As one of Denmark's largest financial institutions, we will strive to maintain a strong and stable share, delivering attractive risk-adjusted returns and dividends.

# Strong local presence through the Totalkredit partnership

- Nykredit is in partnership with virtually all regional and local banks in Denmark through our subsidiary Totalkredit (100% owned by Nykredit)
- Partner banks and Nykredit combined have the largest branch network in Denmark providing easy access for customers

## Unique partnership model

- 50+ regional and local banks are partners
- The Totalkredit partnership allows regional and local banks across Denmark to offer highly competitive mortgages for retail and corporate customers in direct competition with the largest banks in Denmark
- Totalkredit's prices are based on list prices meaning homeowners get uniform fees and administration margins depending on Loan-to-Value and product choice
- The partnership ensures close proximity for customers to full service banks with insight and network in local communities
- Totalkredit constitutes a strong distribution platform for Nykredit



## 50+ local and regional partner banks

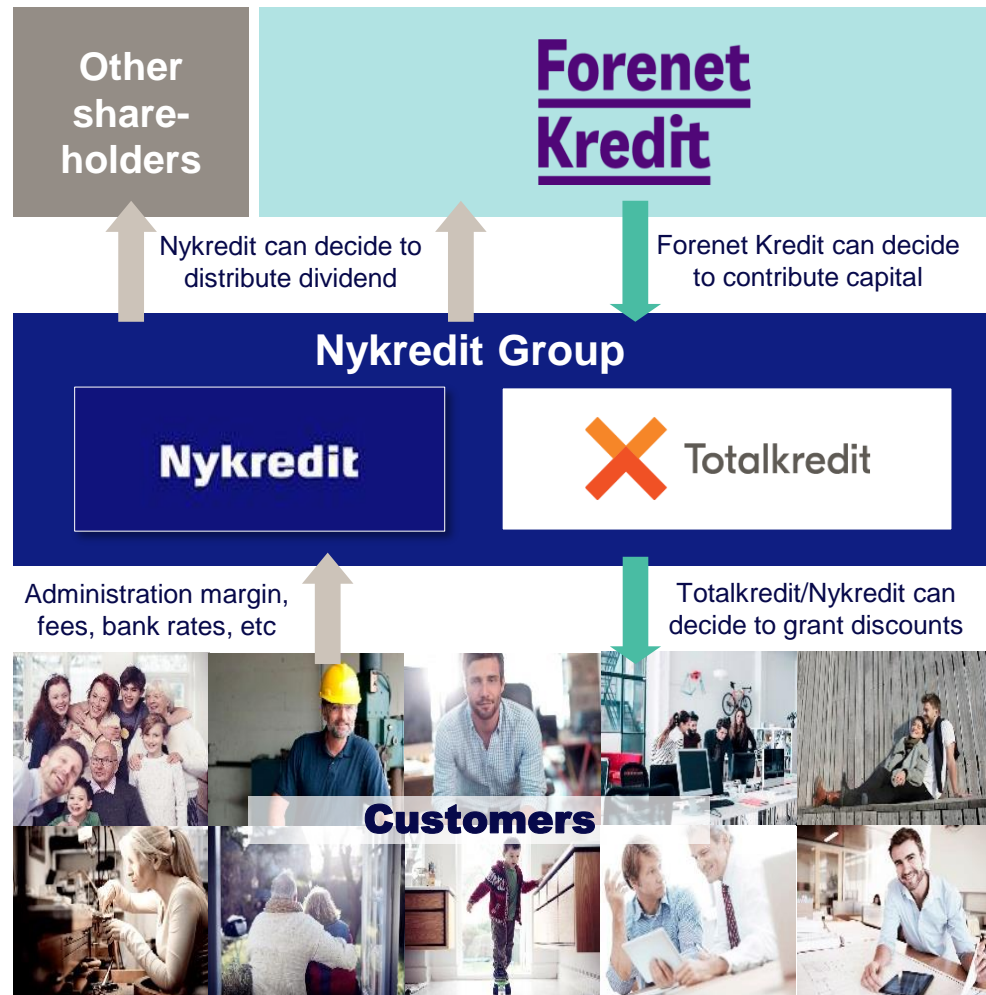




# Customers benefit directly from mutual ownership of Nykredit

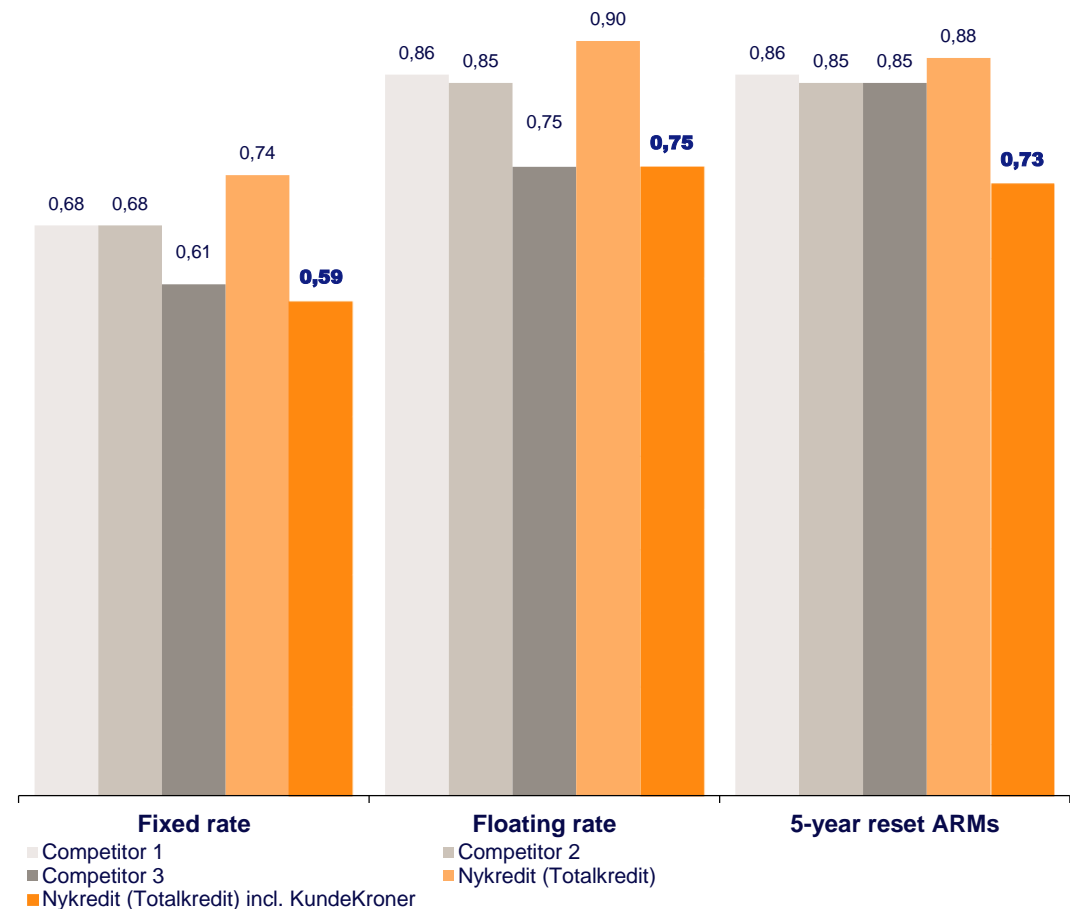
- Nykredit has several customer benefit programs sponsored by Forenet Kredit to the benefit of customers in Nykredit and Totalkredit
- KundeKroner is the largest of these programs. It enhances Nykredit's competitiveness via discounts on mortgage loans
- Additional programs for full service bank customers and commercial mortgage customers

## The workings of KundeKroner



## KundeKroner allows Nykredit to offer the most attractively priced mortgages in the market<sup>1</sup>

Price comparison with main competitors on mortgage administration margins. Interest rates are set by the market price of covered bonds



<sup>1</sup>All rates are for residential repayment mortgage loans with a 0-80% LTV. Nykredit has so far decided to award KundeKroner discounts (0.15% pa) in 2019 and 2020.

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\* Based on CET1 target of 16%

# Responsibility in Nykredit

- Our ownership makes responsibility a natural component of our DNA and it is incorporated in our core strategy and fundamental pledges
- Responsibility efforts in Nykredit is sponsored by the executive management team

## Endorsing the Sustainable Development Goals

The UN Sustainable Development Goals (SDGs) are increasingly becoming integrated into action plans of nations, organizations as well as the private sector

As a mutually-owned institution, Nykredit has a natural alignment with the SDGs

We have analysed the 17 SDGs and identified the goals upon which we can make the greatest impact:



## Operating in alignment with international standards

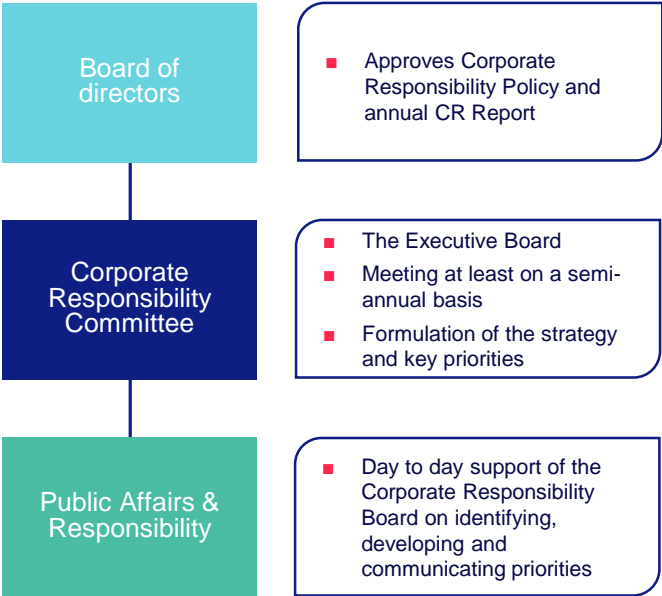
We are a long-term adherent to the Ten Principles of the UN Global Compact, a signatory of the UN principles for responsible investment (PRI) and have incorporated environmental, social and corporate governance (ESG) factors into our investment practices



## Governance

The Executive Board constitutes the Responsibility Committee

Nykredit has a dedicated team focusing on responsibility



# Sustainability in Nykredit

- Contributing to a more sustainable future is key for Nykredit
- At Nykredit, we are focusing our efforts on 3 priorities to make the most efficient contribution to combating climate change

## Overarching priorities

- Climate change demands action and close cooperation between the civil society, the political system and corporates
- The core of Nykredit's business is mortgage lending for housing and other purposes, predominantly in Denmark.

Today, buildings account for 40% of the total energy consumption, and it is estimated that around 90% of the buildings existing today will also exist in 2050. Improved energy performance standards of buildings are thus a decisive factor for the fulfilment of:

- Denmark's and the EU's goals on reducing greenhouse gas emissions
  - The Paris Agreement
  - UN's Sustainable Development Goals
- Hence, we have focused our effort on 3 priorities in order to make the most efficient contribution

## Integrating sustainability in business decisions

- In 2018 Nykredit decided to assess all products on their economic, social and environmental/climate sustainability impact going forward
- The assessment will be made as part of the overall review by Nykredit's Products Committee
- The Product Committee refers to the Executive Board

## Nykredit will actively support sustainable development: Our 3 priorities



### Sustainable housing

1

We will contribute to reducing energy consumption in buildings by developing products that incentivise homeowners to invest in healthy and energy-efficient homes



### Sustainable financing

2

Nykredit will increase the amount of green assets in our portfolios year by year






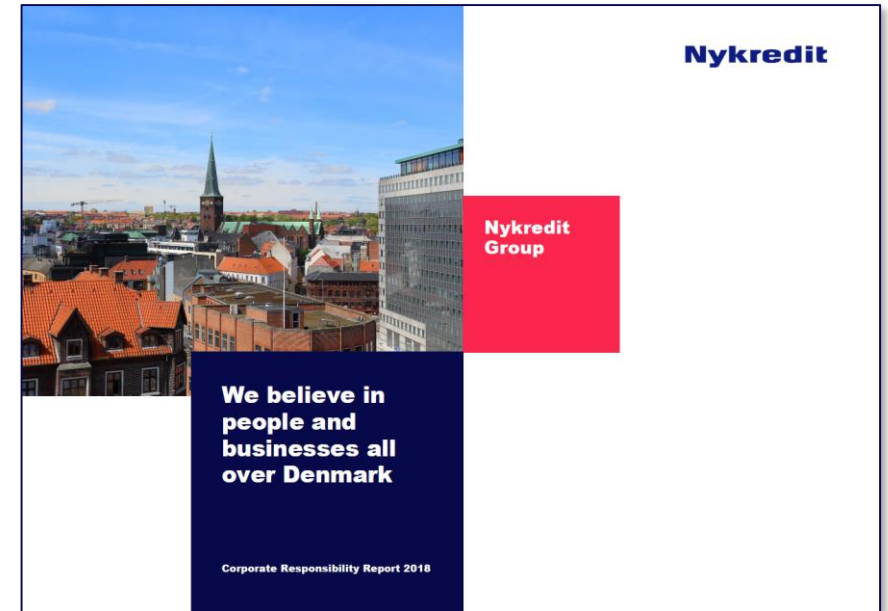
### Sustainable investments

3

We will develop solutions that encourage more customers to invest sustainably

# Nykredit's external ESG ratings

	Score	Range
	<b>BBB</b>	<b>CCC-AAA</b>
	<b>25.6</b>	<b>0 to 100</b>
	<b>B</b>	<b>D- to A+</b>



CDP: Carbon Disclosure Project –primary focus is on climate change

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# Nykredit's Green Bond Framework

- Nykredit has a loan by loan approach



## Use of Proceeds

- Nykredit will allocate an amount equal to the proceeds of the Green Bonds to finance or re-finance green bond eligible assets ("Eligible Assets") within the category of energy efficient commercial and residential buildings

## Process for Project Evaluation and Selection

- Year of construction and energy labels used as the basis for the selection of Eligible Green Mortgages

## Management of Proceeds

- Match between green mortgage loans and green covered bonds
- Nykredit's Green Bond Committee ensures ongoing compliance

## Reporting

- Allocation and impact reporting



# Use of Proceeds

- Nykredit will allocate the proceeds of the Green Covered Bonds to financing or refinancing of energy efficient commercial and residential buildings (the “Eligible Green Mortgages”)

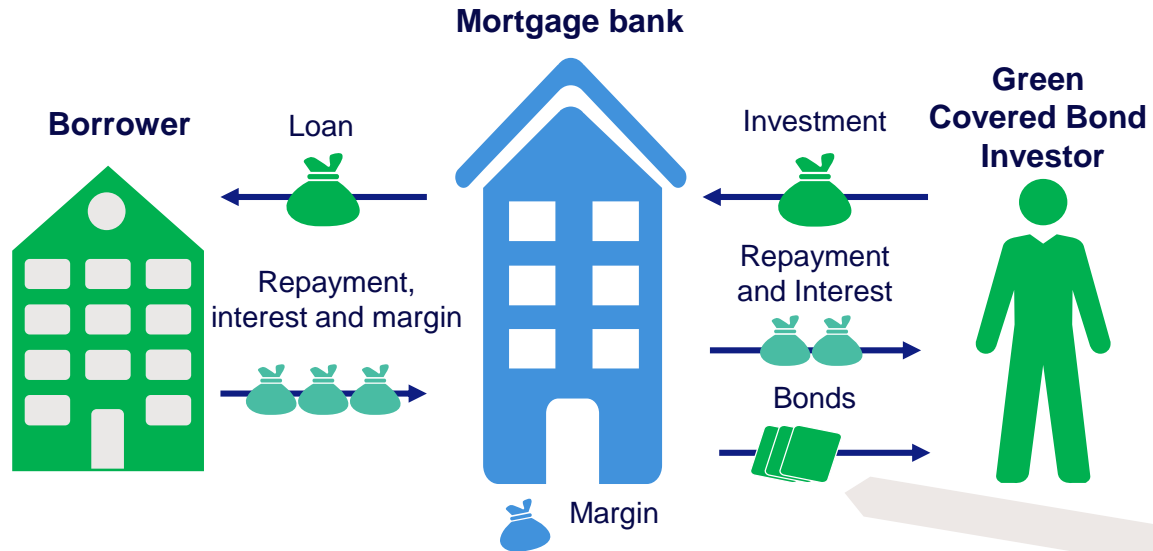
## Eligible Green Mortgages

- Mortgage loans granted to private rental housing, commercial real estate and residential housing
- The portfolio consist of Eligible Properties that comply with the following eligibility criteria:
  - Properties with an energy label of A or B regardless of year of construction
  - Properties constructed after 2009 (Danish construction codes BR08, BR10, BR15, BR18 or later versions), corresponding to energy label A and B
  - BREEAM or BREEAM-SE (minimum certification “very good”)
  - LEED (minimum certification “gold”)
  - DGNB (minimum certification “gold”)
  - Nordic Swan
  - Sweden Green Building Council Miljöbyggnad (minimum certification “silver”)
  - GreenBuilding
  - Or any equivalent international recognisable certification as determined by the Green Bond Committee



# Use of Proceeds mechanics

- Key elements of the balance principle and issuance of green covered bond and green mortgages



- The loans backing the Green Covered Bonds are financing energy efficient commercial and residential buildings and allow Nykredit to issue bonds with a direct cash flow match between the issued Green Covered Bonds and the Eligible Green Mortgages backing the issued bonds
- There will be a direct linkage - including a currency match - between the issued Green Covered Bonds in a particular ISIN and the Eligible Green Mortgages. This means that Green Covered Bonds issued in a specific currency will only fund Eligible Green Mortgages in that same specific currency
- Nykredit may issue Green Covered Bonds in specific ISINs out of its cover pool H if sufficient green assets are available



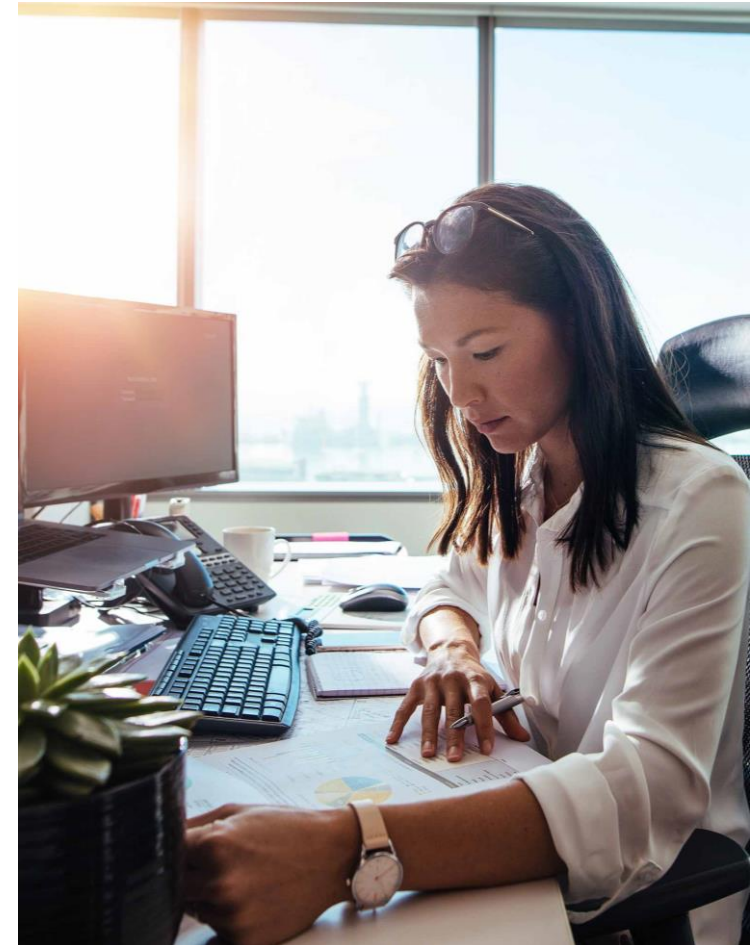
# Process for Project Evaluation and Selection

- Strong management supervision of Green Covered Bonds
- The Green Bond Committee will review eligibility of assets

## The process for evaluation and selection of eligible assets

- The Green Bond Framework is approved by Nykredit's Corporate Responsibility Board
- The Green Bond Committee will meet on a regular basis (at least quarterly) to ensure ongoing compliance with the green bond framework
- The Funding & Capital Department at Nykredit will review and approve allocations of bond proceeds used to fund Eligible Assets at least on a daily basis

## Governance for the green covered bond





# Management of Proceeds

- Nykredit will issue green covered bonds to fund green buildings

## Issuance of Green Covered Bonds

- For Eligible Green Mortgages financing energy efficient commercial and residential buildings Nykredit will issue in the format of Green Covered Bonds
- The proceeds will be used to fund green mortgage lending on a one-to-one basis
- Due to the match funding principle of Nykredit's mortgage lending model the cash flow of the green bonds will match the cash flow of the mortgages funded by these bonds
- Any portion of the net proceeds of Green Bonds that have not been allocated to Eligible Assets in the Green Covered Bond Registry will be held in accordance with Nykredit's normal liquidity management policy

## Danish covered bond regulation

Danish regulation stipulates that loans in specialised mortgage banks such as Nykredit Realkredit A/S can only be funded by covered bonds

All Eligible Green Mortgages will therefore be funded by covered bonds

Nykredit will issue Green Covered Bonds in specific ISINs out of its Capital Centres if sufficient green assets are available





- Nykredit will report on allocation of proceeds and impact

## Allocation of Proceeds Reporting

- At least on an annual basis, to update investors on the allocated assets:
  - The total outstanding of Green Bonds
  - The total amount of net proceeds allocated to Eligible Covered Bonds backed by Eligible Green Mortgages; and
  - The amount of unallocated proceeds or Eligible Green Replacement Assets (if any)

## Impact Reporting

- An impact report will be made available annually and will provide details, on an aggregated basis, on indicators such as:
  - Estimated ex-ante annual energy consumption in kWh/m<sup>2</sup> or energy savings in MWh;
  - Estimated ex-ante annual GHG emissions reduced/avoided in tons of CO<sub>2</sub> equivalent

All relevant reporting will be made available on [www.nykredit.com/greenbonds](https://www.nykredit.com/greenbonds)



- Sustainalytics has reviewed Nykredit's Green Bond Framework and produced a Second Party Opinion

1



**The Second Party Opinion  
is available at:  
[nykredit.com/greenbonds](https://nykredit.com/greenbonds)**

## ■ **Second Party Opinion**

“ Sustainalytics is of the opinion that the Nykredit Green Bond Framework is credible and impactful, and aligns with the four core components of the Green Bond Principles 2018 ”

“ Sustainalytics considers Nykredit's sustainability strategy to be robust, and adequate in scope and depth to address relevant material issues. Additionally, Sustainalytics views positively the alignment of the Nykredit Green Bond Framework with the goals of the Issuer's sustainability approach ”

2

## ■ **Verification – Assurance Report**

- Sustainalytics will review Nykredit's allocation of the Green Bond proceeds to Eligible Green Mortgages and Eligible Green Replacement Assets on an annual basis

# Legal set-up

- Nykredit will issue green covered bonds under its existing covered bond program

**1**

Green covered bonds are issued to finance or refinance mortgages otherwise eligible for covered bond issuance subject to the terms and conditions of the covered bond base prospectus and final terms

**2**

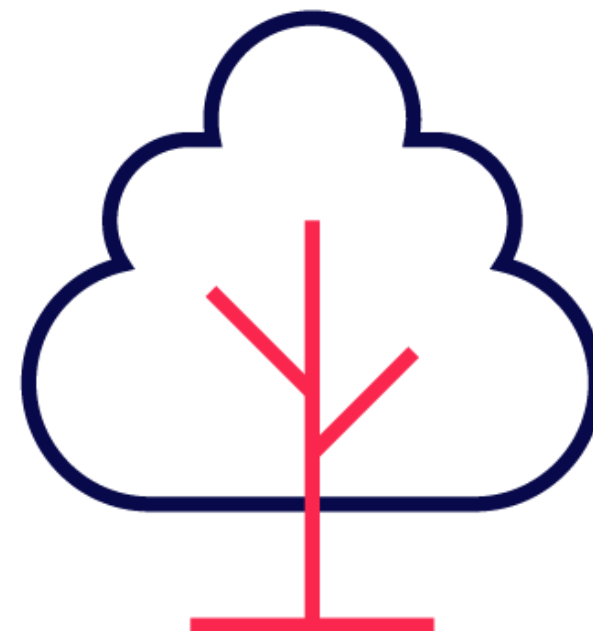
Green covered bonds are subject to the ratings applicable to Nykredit's covered bonds issued out of the relevant capital centre – currently AAA from S&P Global

**3**

Green covered bonds are secured by the entire collateral base of the relevant capital centre and rank pari passu with other covered bonds issued from the same capital centre

**4**

Green covered bonds are covered bonds from a regulatory perspective and will not necessarily be compliant with future regulatory definitions of green covered bonds



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# Sustainable Investments in Nykredit

- Nykredit Asset Management is leading on sustainable investments in Denmark

## Our approach

- Nykredit invests more than DKK 211bn on behalf of our customers and DKK 100bn in our own investment portfolio
- All investments are covered by Nykredit's Sustainable Investment Policy
- ESG ratings are an integral part of our active asset management and risk management
- Each quarter, we screen the companies that we invest in. We look into whether their conduct respects human rights, integrates environmental considerations and opposes corruption. In short: Does a company operate in accordance with the set of rules adopted by the UN, the OECD, the EU and Denmark?
- Nykredit exercises the voting rights for our equity positions as part of our active ownership

## Operating in alignment with international standards

Nykredit is a UNPRI-member, and we are proud to be top-rated by PRI

Our PRI-reporting is available on our webpage

We invest to support the SDG and Paris Agreement. Nykredit Asset Management has also adopted TCFDF



## First ecolabelled fund in Denmark

- The Nykredit Invest Sustainable Equity Fund has - is the first fund in Denmark to obtain the Nordic Swan Ecolabel



- The fund invests in 50-70 sustainable equities
- The goal is to create long-term sustainable investment opportunities for our customers

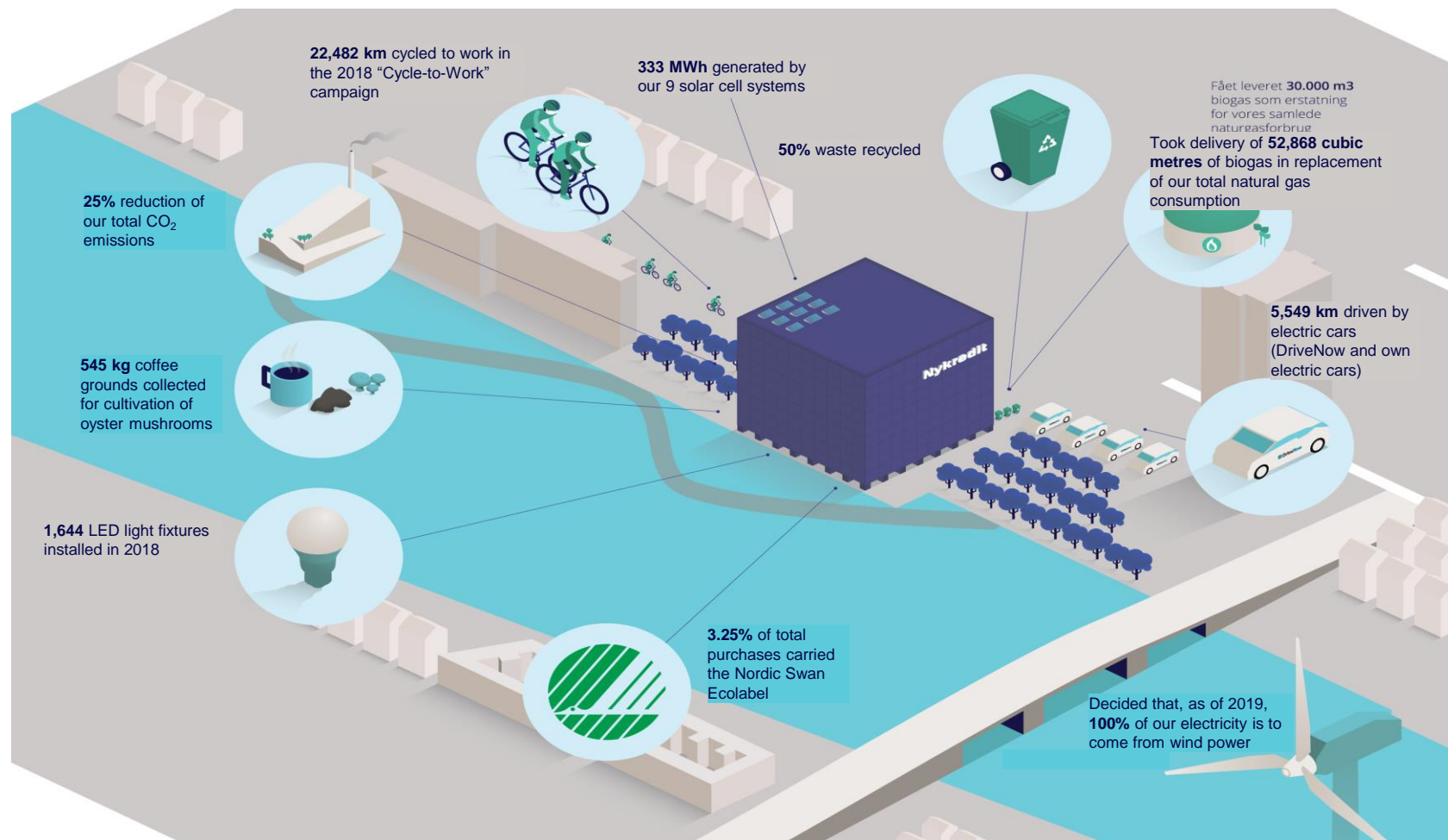


**Prospera**

# Leading by example

- Nykredit aims to reduce our own environmental footprint, in particular our carbon emissions
- Nykredit has reduced carbon emissions by 25% in 2018 and by 65% since 2012. We have set new ambitious targets for 2025

## Results in 2018



## New targets in Nykredit

- Total MWh consumption to be reduced by 25% by end of 2025
- CO<sub>2</sub> emission per staff member to be reduced by 5% annually until 2025
- Maximum of 20% of waste will be incinerated in 2023
- Waste per staff member to be reduced by 100kg in 2023
- Nykredit's electricity consumption will, from 2019, be solely based on wind power
- The wind power will originate from two windmills located in Northern Jutland



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