

Nykredit Group

FY 2023 Earnings call

7 February 2024

Numbers relate to the Nykredit Group

Nykredit



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Group Chief Executive Michael Rasmussen



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Highlights of 2023

Very satisfactory results for 2023



- Highest ever profit after tax of DKK 10.9bn
- 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

Strong market position



- Continued volume growth in mortgage and bank lending and increasing market shares
- Nykredit raised customer discounts for personal customers from 15bp to 20bp
- Continued organic growth in our Wealth Management business

Strong capitalisation and credit quality



- Credit quality remains strong despite higher interest rates
- CET1 ratio of 20.4% which is 500bp above capital policy target
- Proposed dividend of DKK 5.4bn in line with dividend policy of 50% of net profits
- Extraordinary dividend of DKK 1.85bn paid out in 2023 due to Nykredit's very strong capital position

Very satisfactory results for 2023

ROE of 11.4%

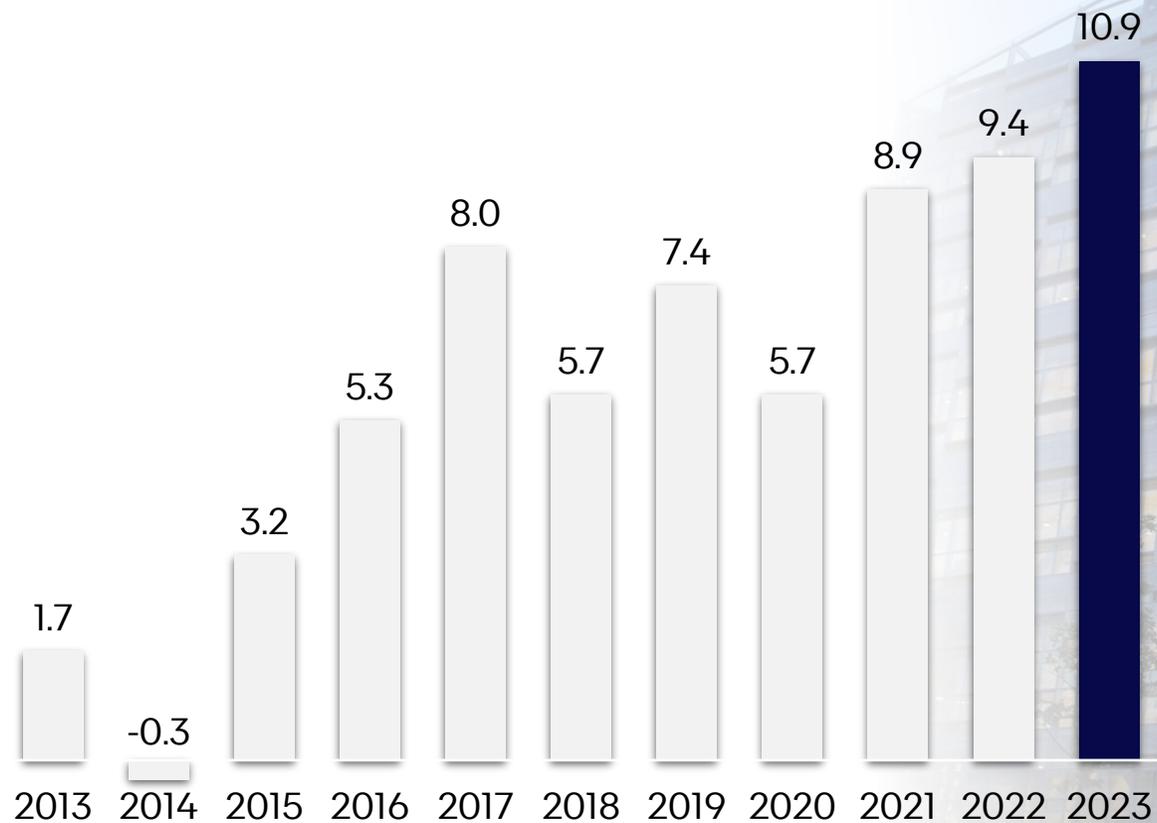
DKKm	2021	2022	2023
Core income ¹	14,709	16,269	17,462
Trading and investment income	2,718	1,736	1,625
Costs	-6,349	-6,327	-6,560
Impairment charges ²	-115	-80	-177
Business profit	10,295	10,576	14,019
Profit after tax	8,865	9,448	10,887
Return on equity after tax, % p.a.	9.9%	10.2%	11.4%
Cost/income ratio	38.4%	37.6%	32.2%

¹ NII, NFI and Wealth Management income

² A negative number indicates a gain

All-time high results

Profit after tax, DKKbn



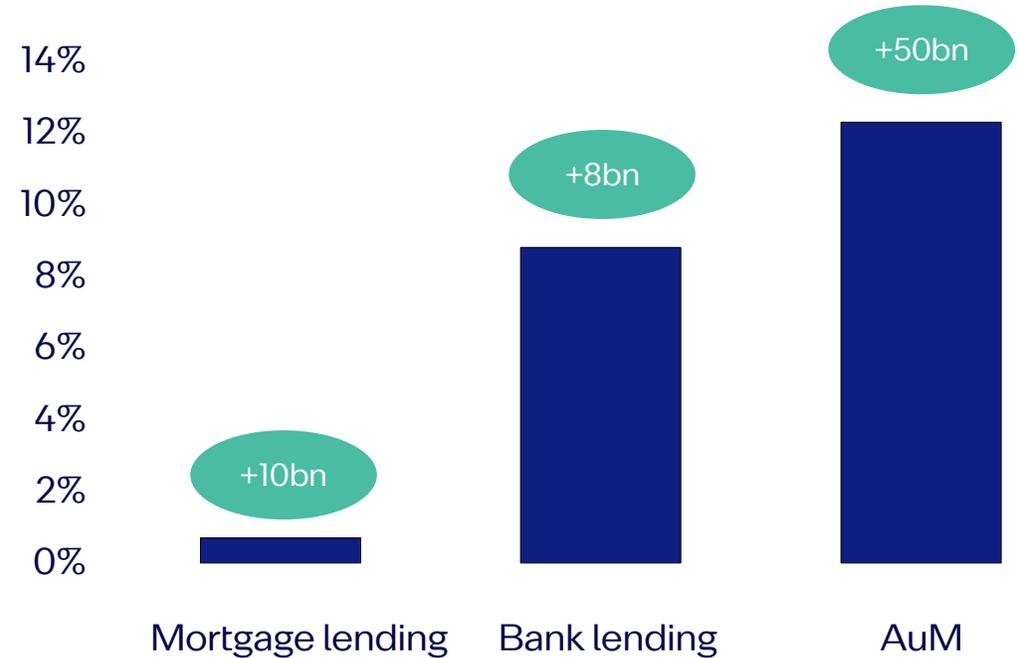
Diversified income and continued volume growth

- Strong business performance with volume growth driven by:
 - Mortgage lending to Corporates & Institutions
 - 9% 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

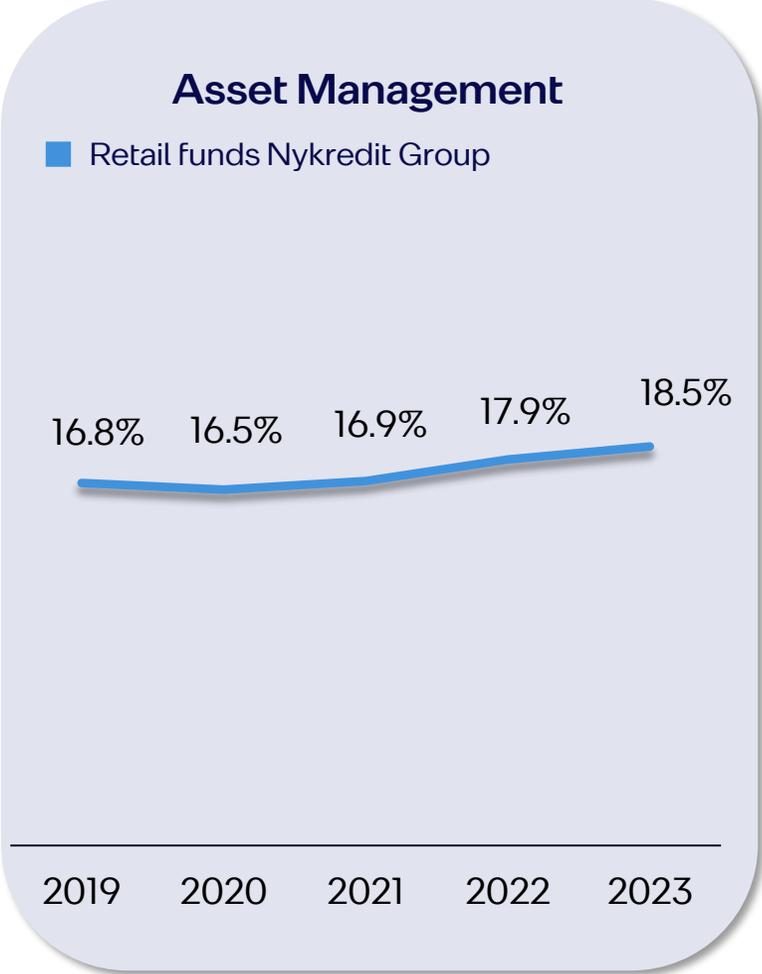
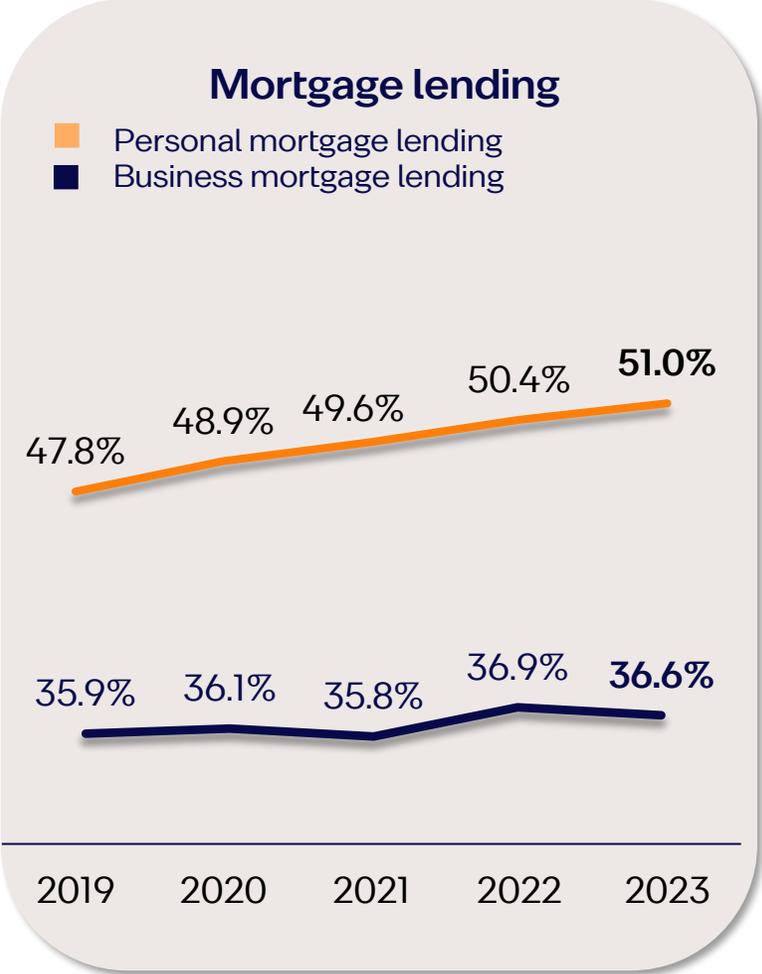
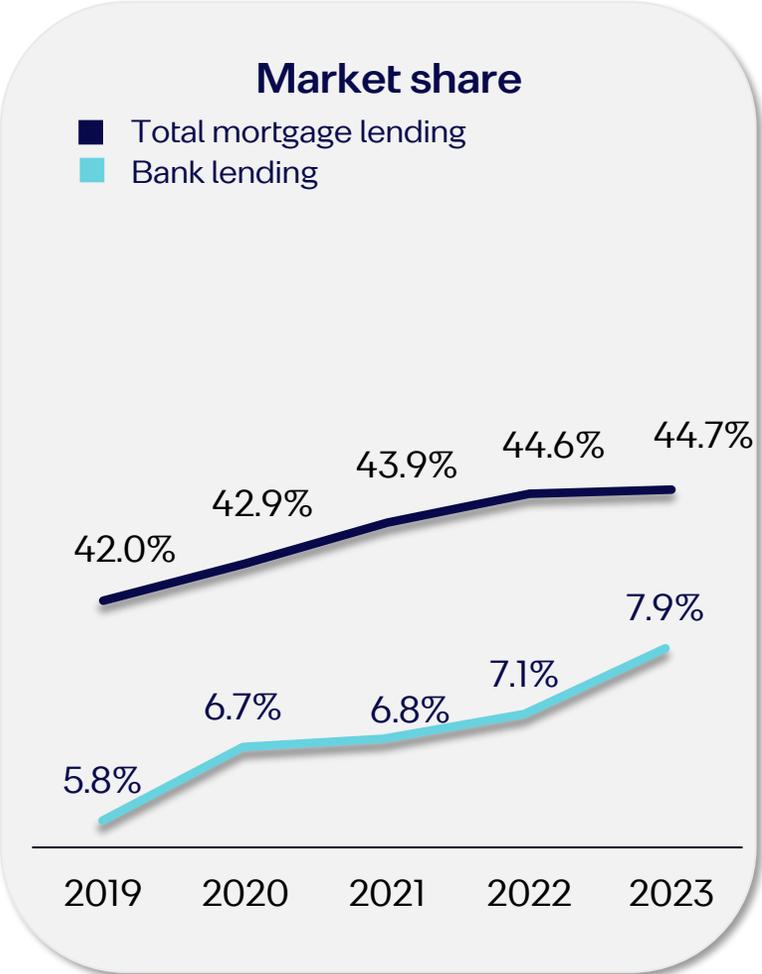
Core income composition



Volume growth in all business areas, DKKbn, 2023 vs 2022



Nykredit strengthened its position across the board



Source: Investering Danmark

Nykredit expands competitive lead by increasing customer discounts

- As a result of Nykredit's strong stable earnings and unique ownership model
 - Nykredit increased customer discounts to 20bp from 15bp for personal customers as of 1 January 2024
- Thereby, Totalkredit expands its position as the cheapest mortgage provider in the market
- The customer discounts programme is sponsored by Nykredit's majority owner Forenet Kredit

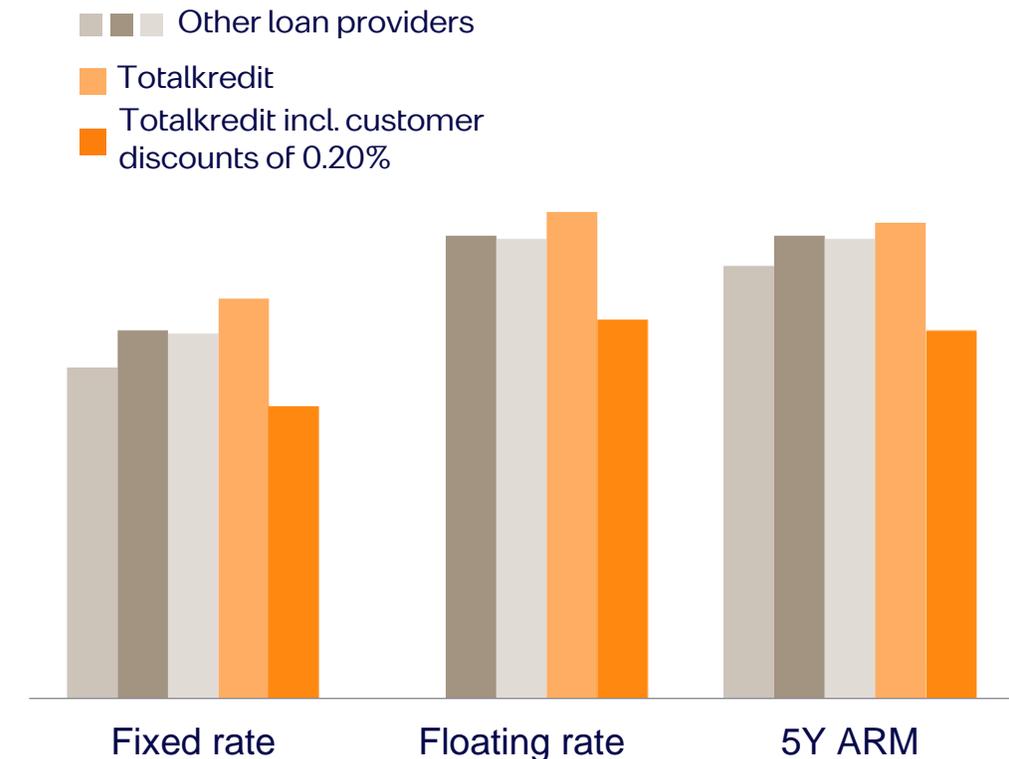
Effect of change in customer discounts to 20bp from 15bp

98.3% of Totalkredit's **loan stock** has the lowest margin in the market (**76.3%** before change in customer discounts)

99.8% of Totalkredit's **gross lending** in 2023 has the lowest margins in the market (**85.6%** before change in customer discounts)

Totalkredit has the lowest net prices

– Main products (residential, 0-80%)



All margins are for residential amortising loans with a 0-80% LTV.

Nykredit is acknowledged for its ESG initiatives



Nykredit has joined the **SBTi**, and as the first Danish financial provider, Nykredit has set **climate targets** for real estate and owner-occupied dwellings

Progress in reducing emissions to meet the ambitious **2030 climate targets** and the goal of delivering a **net zero** Nykredit by **2050**

In 2023, we published a **Fossil Fuels Policy**, which takes a stricter approach to fossil fuel companies

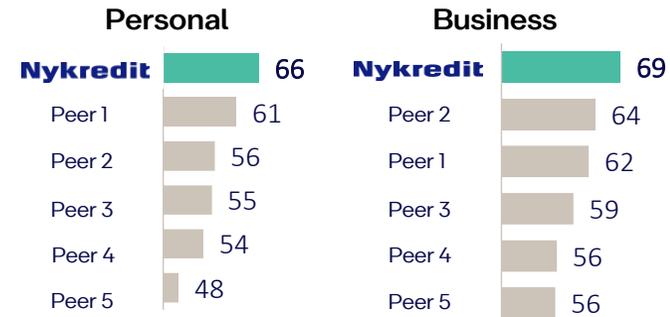


Nykredit is ranked among the **top performers** by customers on its **sustainability efforts** to personal as well as business customers



37% female managers in 2023 (33% in 2022) - Target of **45%** female managers by 2030, **50%** in the long term

Customers rate Nykredit highly on Sustainability¹



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



¹) EPSI September 2023. Peers include Danske Bank, Nordea, Jyske Bank, Spar Nord and Sydbank

The strong Danish economy underpins the resilience of our loan book



Virtually no loan losses

- Unemployment remains low
- Surprisingly strong housing market with price increases in 2023



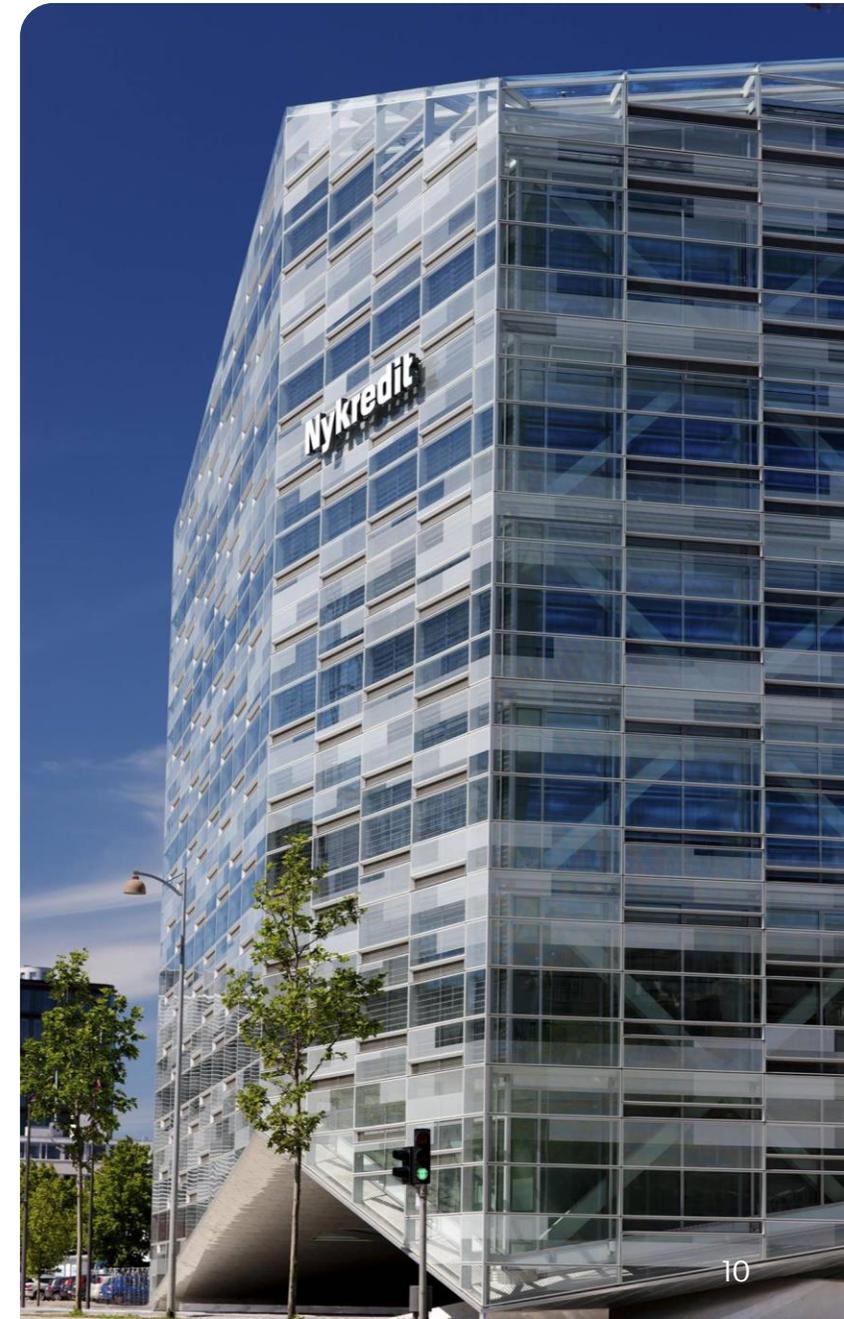
Danish homeowners are robust

- Danish homeowners are robust with large savings
- The refinancing surge in 2022 reduced customer LTVs but increased interest sensitivity



Business lending is strong

- LTV levels remain low
- Some sectors are affected by higher interest rates, sensitivity to property prices and economic downturn



Financial performance, credit and funding plans

CFO David Hellemann



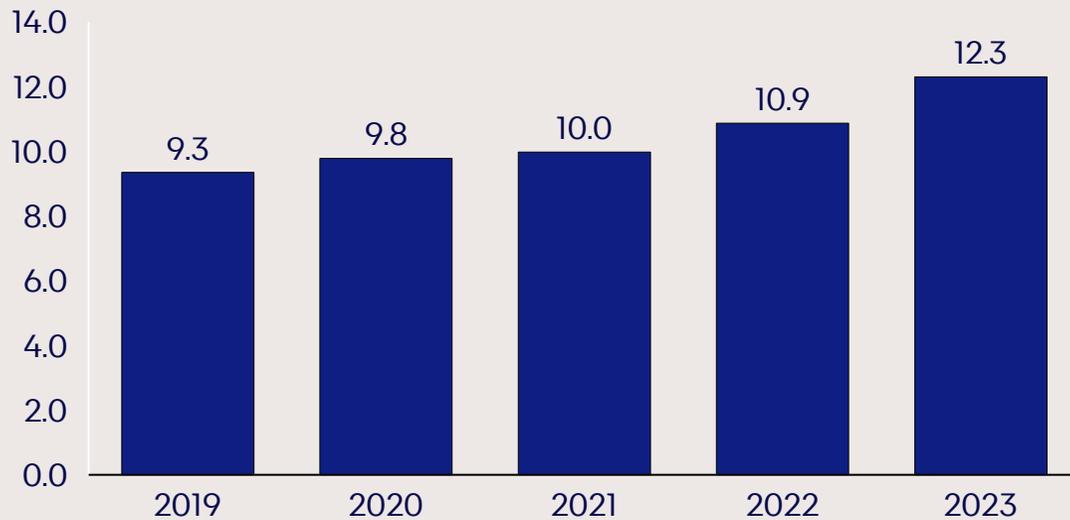
Group income statement

DKKm	2022	2023	Change	
Net interest income	10,871	12,305	13%	Driven by increased deposit margins due to higher interest rates as well as volume growth in bank and mortgage lending
Net fee income	3,119	2,789	-11%	Decreased due to lower activity on mortgage lending to retail but positively impacted by high lending activity driven by large corporates
Wealth management income	2,279	2,368	4%	Increased due to higher AuM driven by positive value adjustments and inflow of new funds
Customer benefits and capitalisation costs	-1,182	1,315		Positively impacted by interest on equity which offsets interest expenses on bail-inable debt
Trading and Investment portfolio	1,736	1,625	-6%	Decreased due to lower value adjustments of strategic bank equities
Total income	16,823	20,402	21%	
Costs	6,327	6,560	4%	Up, driven by increasing costs of payroll, performance bonuses and price increases due to inflation
Impairment charges	-80	-177		Reversal of impairment charges in 2023, as underlying credit quality remains strong
Legacy derivatives	931	59		Positive value adjustments in 2023 but lower compared to a strong 2022, which was driven by a significant increase in interest rates
Profit before tax	11,507	14,078	22%	
Profit after tax	9,448	10,887	15%	ROE of 11.4%

Net Interest Income up 13% driven by higher interest rates and volume growth

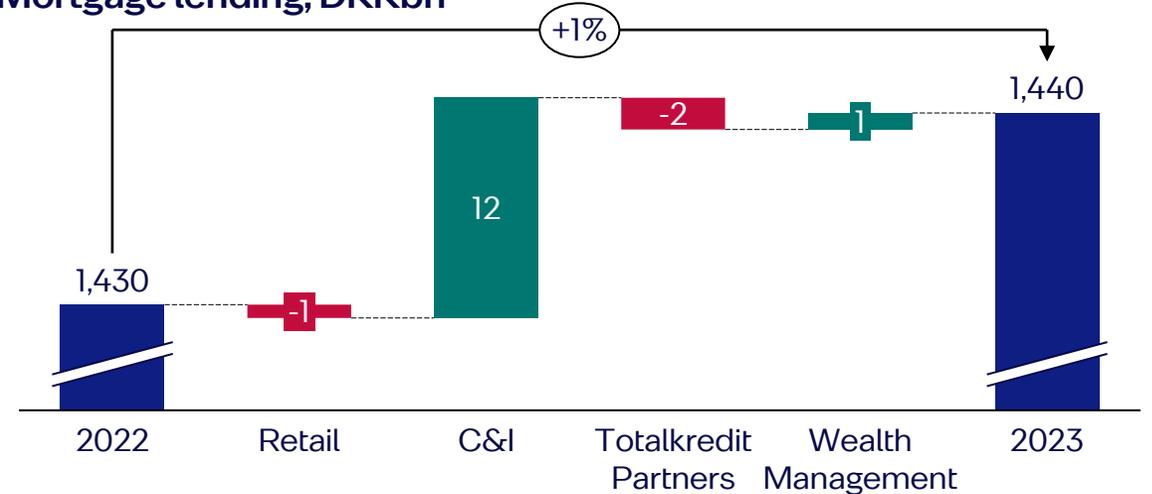
- NII positively impacted by increasing deposit margins due to higher interest rates
- Consistent growth in NII from higher loan volumes
- NII sensitivity lower than peers as mortgage lending makes up 93% of Nykredit's balance sheet

Net Interest Income, DKKbn

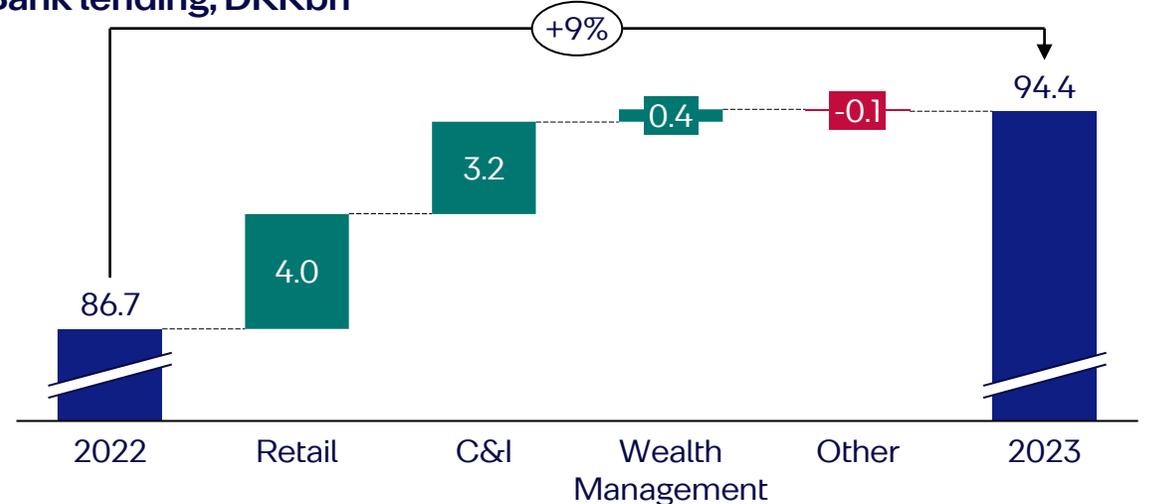


* Note: Nominal values

Mortgage lending, DKKbn*



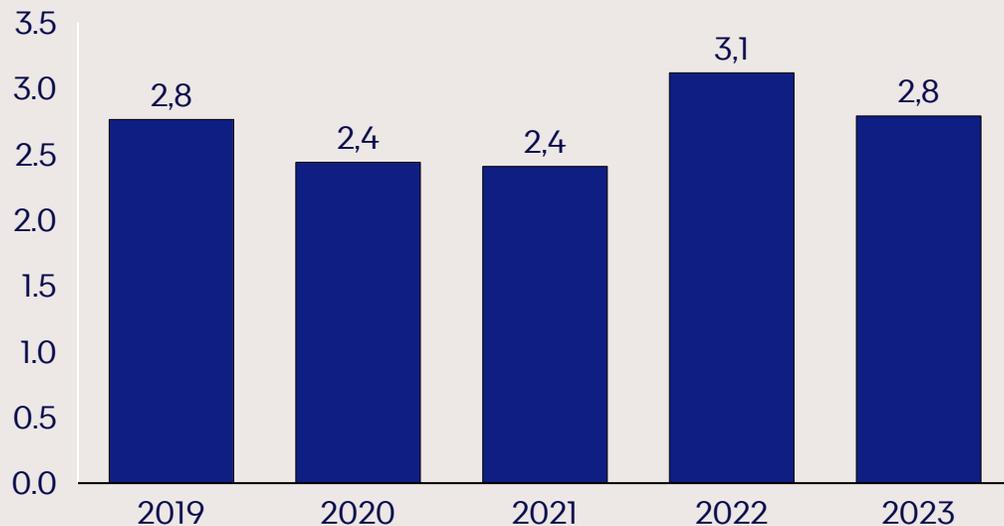
Bank lending, DKKbn*



Net Fee Income down 11% due to lower mortgage activity

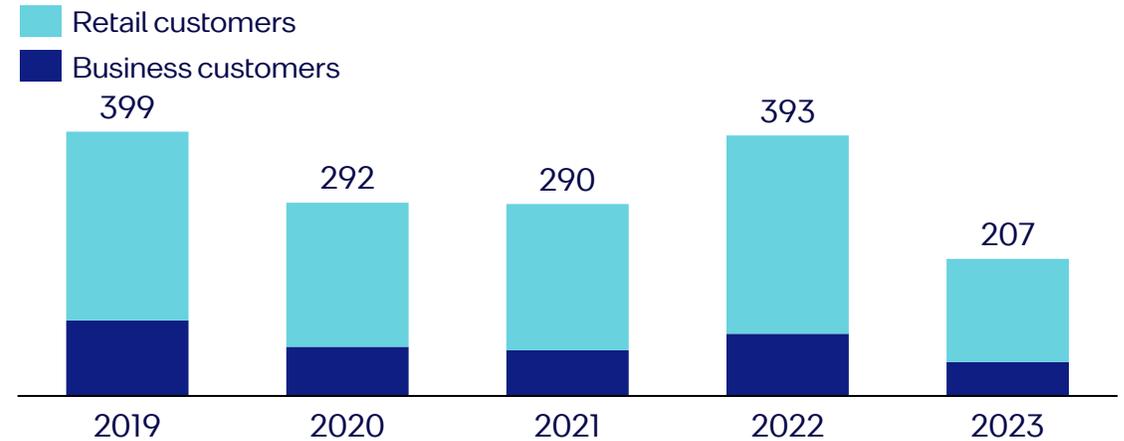
- Fee income affected by a significantly lower mortgage lending and refinancing activity in 2023
- NFI positively impacted by a high banking activity driven by large corporates

Net Fee Income, DKKbn

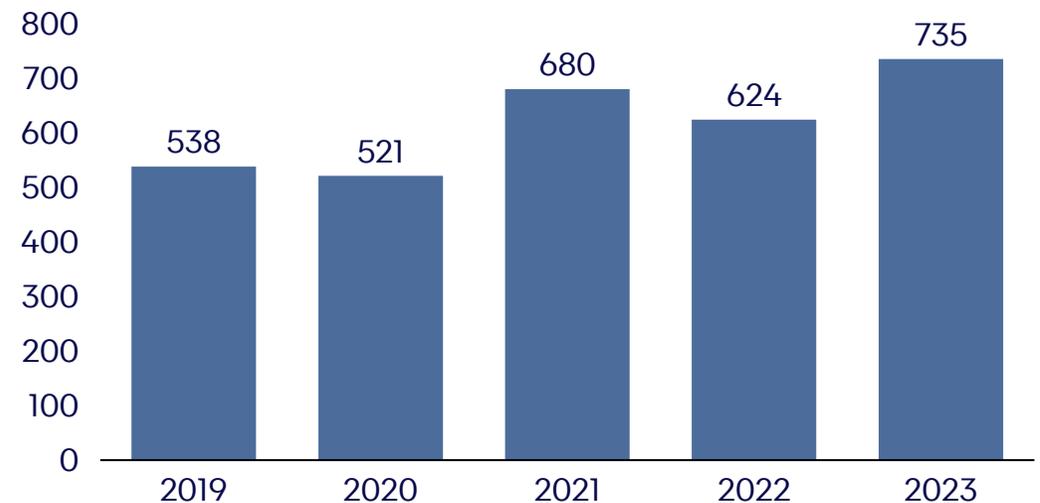


* Note: Nominal values

Gross mortgage lending, DKKbn *



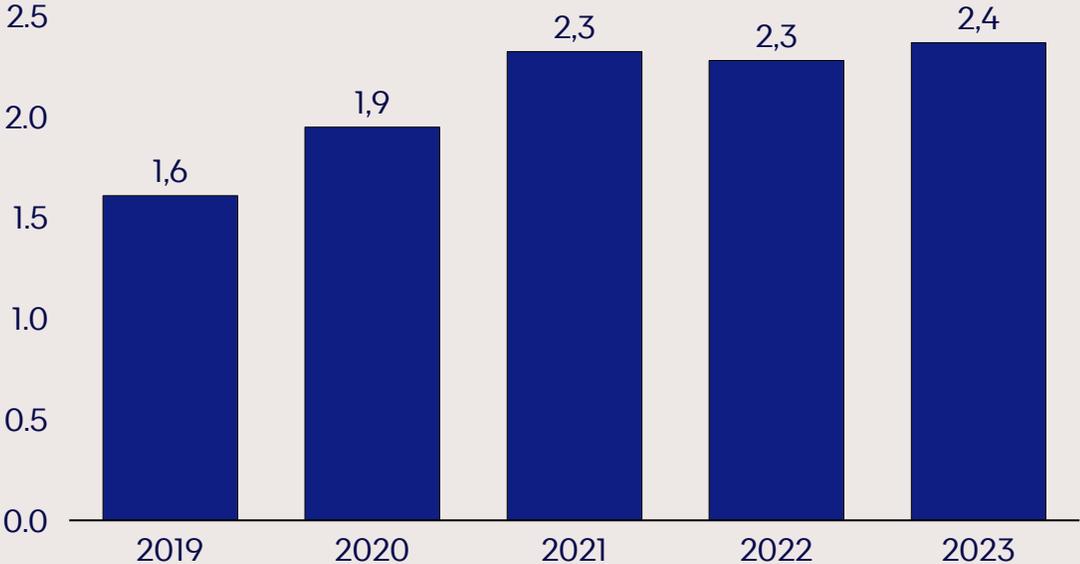
Net Fee Income from banking activities, DKKm



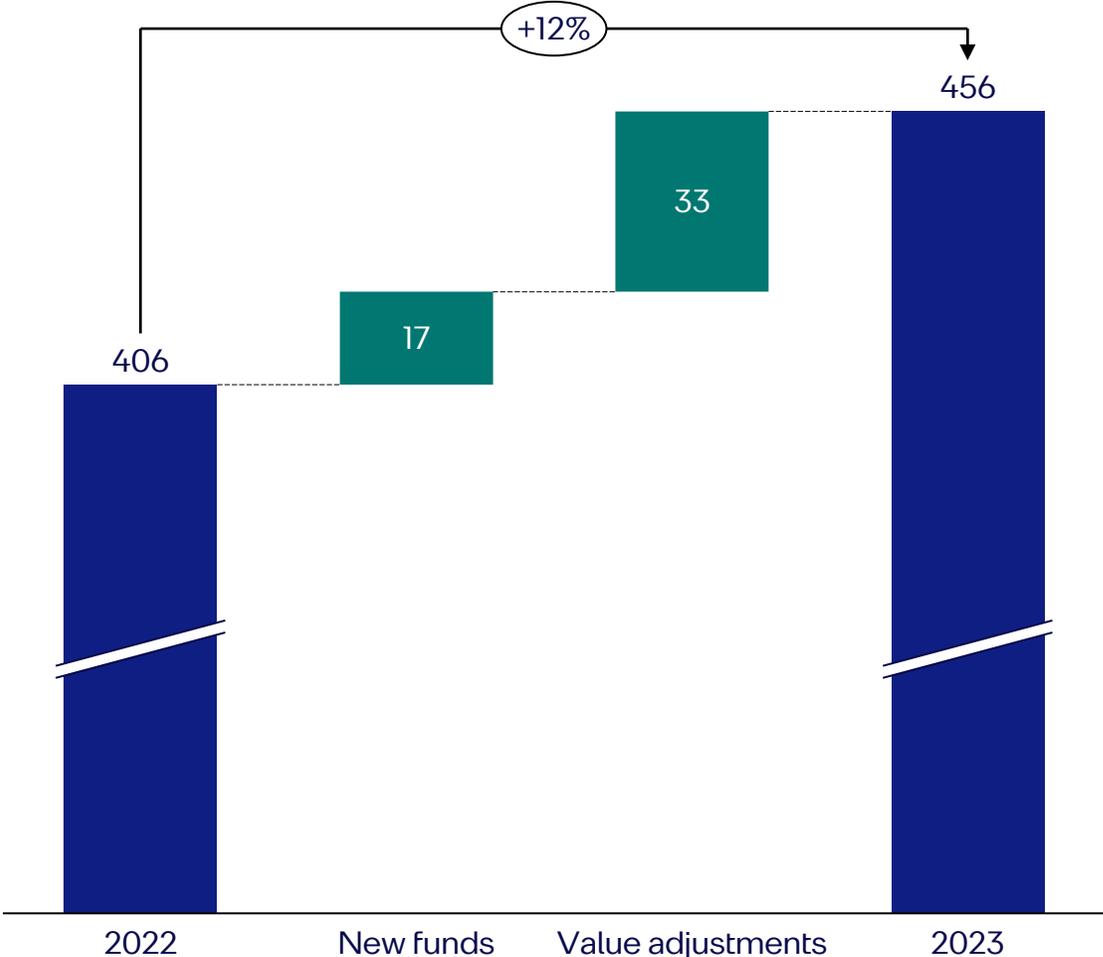
Wealth Management Income up 4%

- Income growth driven by an increase in average volumes
- AuM up 12% since 2022, driven by positive value adjustments as well as inflow of new funds
- We benefit from scale in Wealth Management and continue to attract new funds

Wealth Management Income, DKKbn



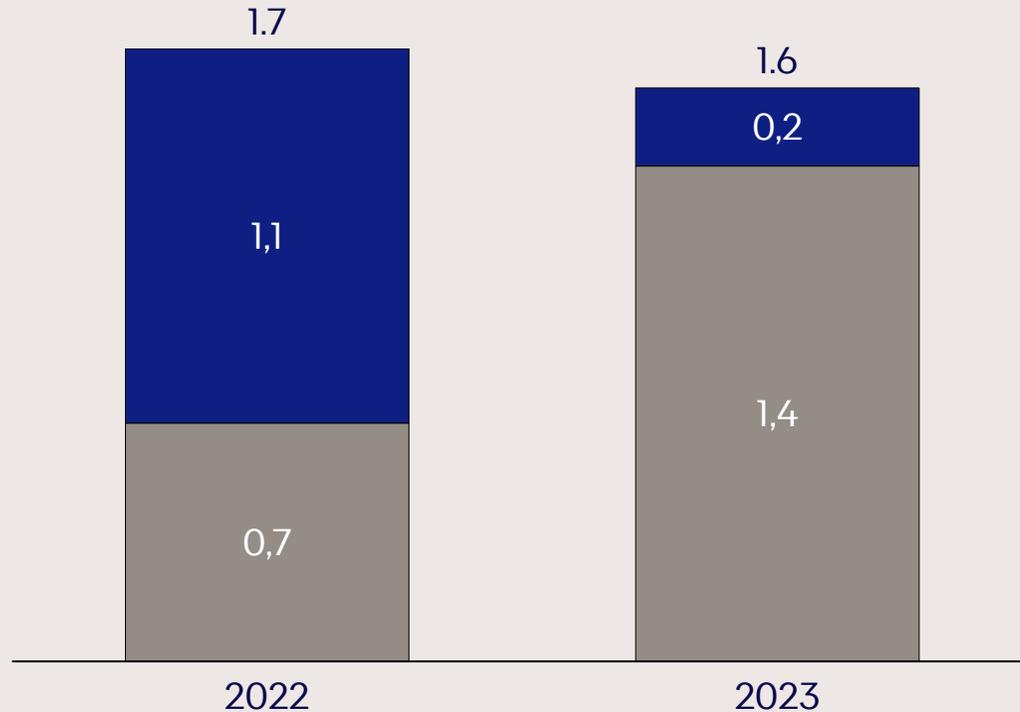
Assets under Management, DKKbn



Trading and investment income down 6%

Trading and investment portfolio income, DKKbn

- Income from portfolio of bank equities
- Other investment portfolio income



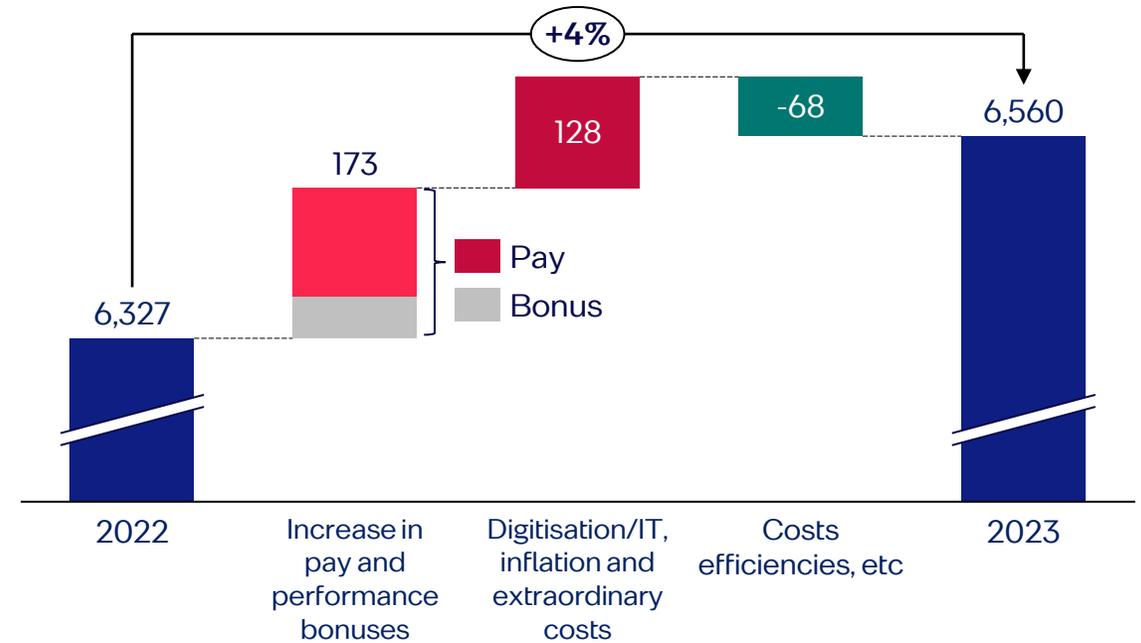
- Trading and investment portfolio income of DKK 1.6bn in 2023
- Lower income from the portfolio of strategic bank equities driven by lower value adjustments compared to end-2022
- Other investment portfolio income
 - Primarily from holdings of Danish floating-rate covered bonds which was impacted by positive value adjustments due to spread tightening
 - Lower positive value adjustments on swaps compared to 2022

Costs are driven by pay increases and performance bonuses

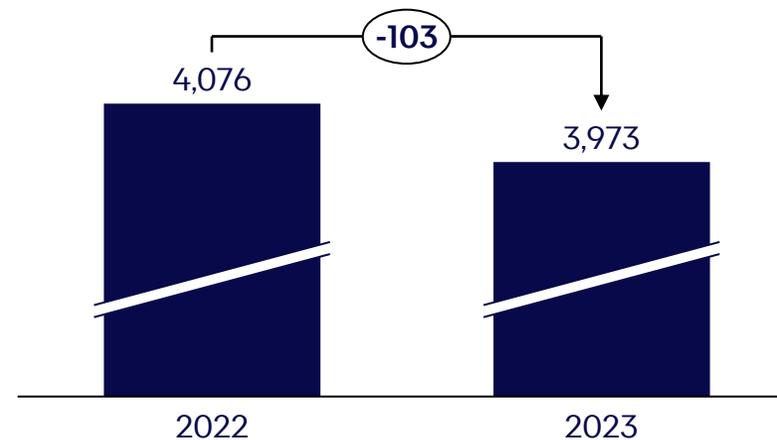
- Costs are up 4% or DKK 233m compared to 2022
- The main driver was an increase in pay and performance bonuses amounting to DKK 173m
- Costs excluding performance bonus are up 3% from 2022 to 2023 despite pay increases by 3.6%*
- DKK 128m relates to investments in digitisation/IT, price increases due to inflation and extraordinary costs
- The average headcount declined by 103 to 3,973 due to lower activities and efficiency initiatives
- Cost/income ratio of 32%, which is well below Nykredit's target of 40%

* In the standard collective agreement, the agreed wage increases of July 2022 were 2.5% and 4.75 % of July 2023

Change in costs from 2022 to 2023, DKKm



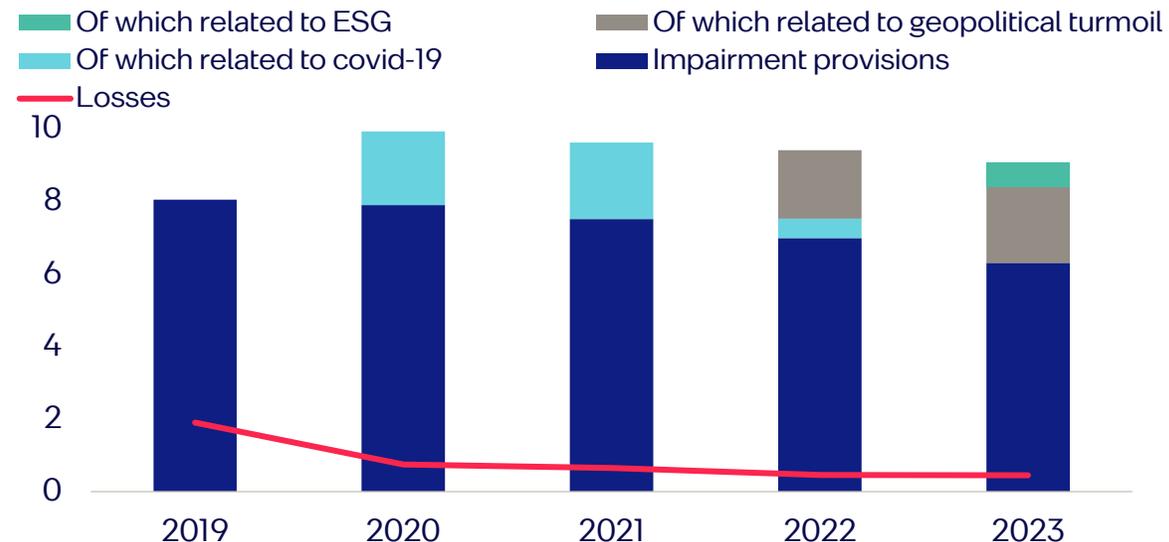
Development in average staff, FTE



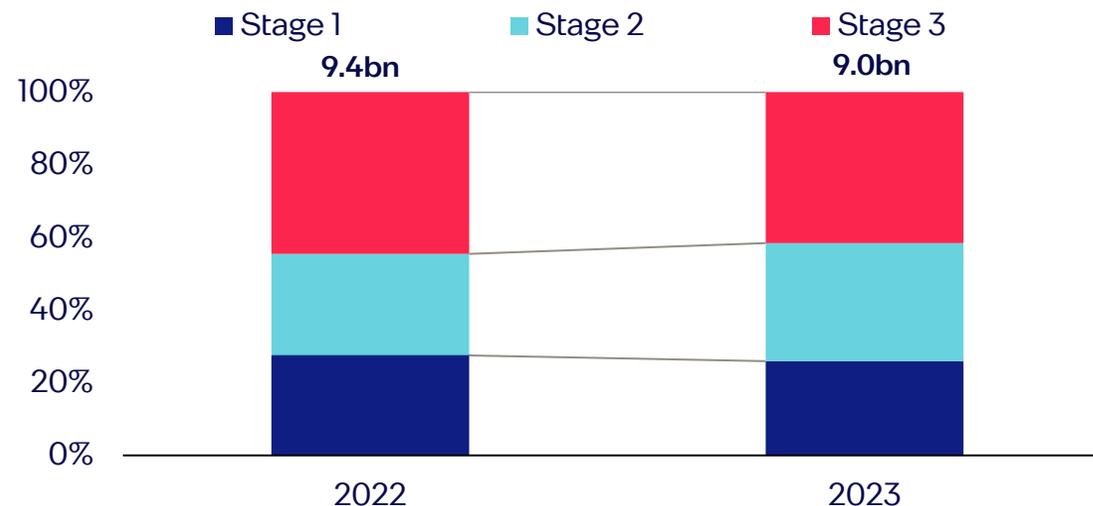
Strong buffer for potential headwind

- Virtually no losses incurred in the past 4 years
- Declining level of impairment provisions due to favourable economic conditions and improved credit quality
 - Cost of risk -1bp
- Provisions of DKK 2.1bn for potential losses from geopolitical tensions
 - Strong focus on particularly exposed sectors and customers to ensure that signs of weakness are addressed in the credit process
- Provisions of DKK 0.7bn related to transitional risks from ESG
- Total loan impairment provisions amounted to DKK 9.0bn at end-2023

Nykredit Group total loan impairment provisions, DKKbn



Development in loan impairment provisions by stage, DKKbn



Personal loan portfolio is robust

Since covid-19, Danes have accumulated a savings surplus



Unemployment remains very low at 2.8%

Purchasing power is being regained as wages increase by almost 5% and inflation is less than 1%



LTVs increased in 2023 but remain at a low level

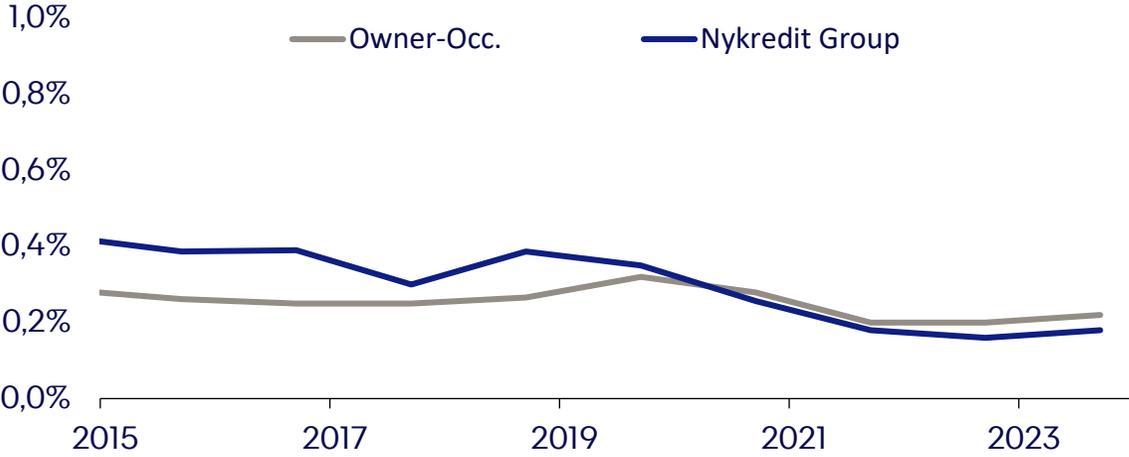


We are vigilant on impacts from housing cost burden, inflation and increasing interest rate sensitivity

Average LTV for private residential properties



75-day mortgage arrears to latest term



Business loan portfolio is resilient

But some industries are particularly exposed



Attention to sectors affected by high interest rate sensitivity, sensitivity to property price declines and economic downturn

Business lending is primarily mortgage lending with low LTVs



5% of total lending is within high-attention sectors such as construction, manufacturing, accommodation and food service of which 68% is secured by mortgages

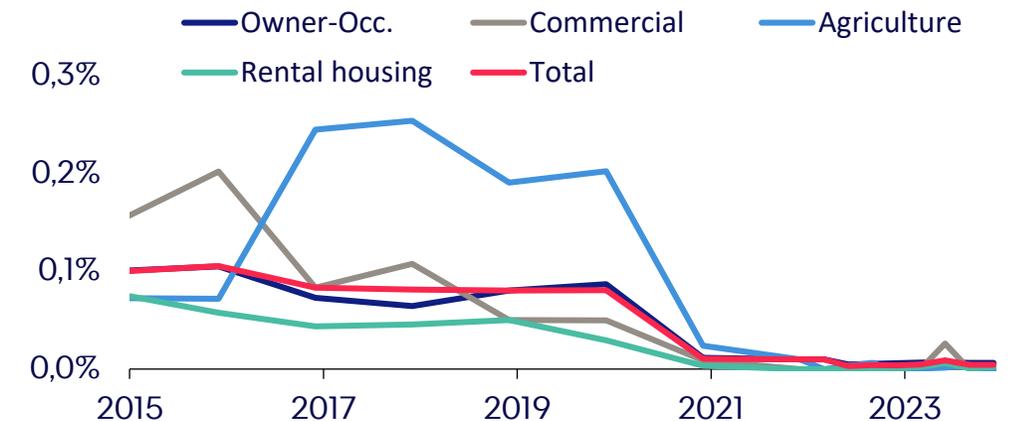


The agricultural portfolio is marked by high interest sensitivity and political ESG ambitions

Average business sector LTVs

	2015	2023
Private rental	67%	54%
Office and retail	56%	48%
Industry and trades	49%	48%
Agriculture	58%	56%

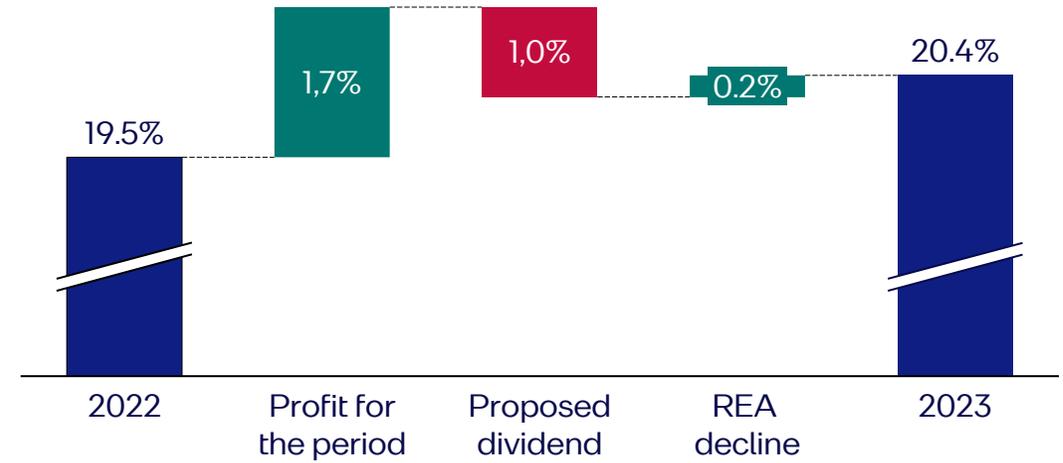
Incurred losses on mortgage lending as a % of debt



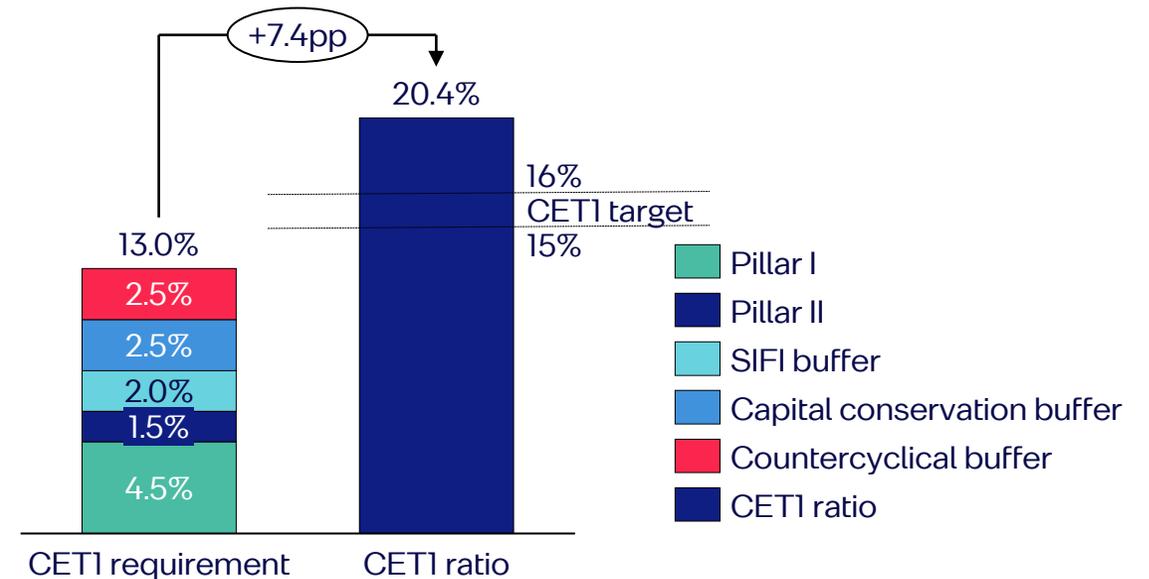
Strong capitalisation

- The CET1 capital ratio of 20.4% is some 500bp above the policy target
 - Proposed dividends of DKK 5.4bn
 - Corresponding to 50% of net profits and in line with dividend policy
- The risk exposure amount decreased by 1% to DKK 432bn in 2023
 - Nykredit expects increasing risk exposures from credit risk due to Basel IV and a deterioration of economic trends
- The Systemic Risk Council recommends a Systemic Risk Buffer for exposures to real estate companies from 30 June 2024
- Nykredit's capital policy target includes a buffer of 400bp for a severe macro stress

CET1 capital ratio



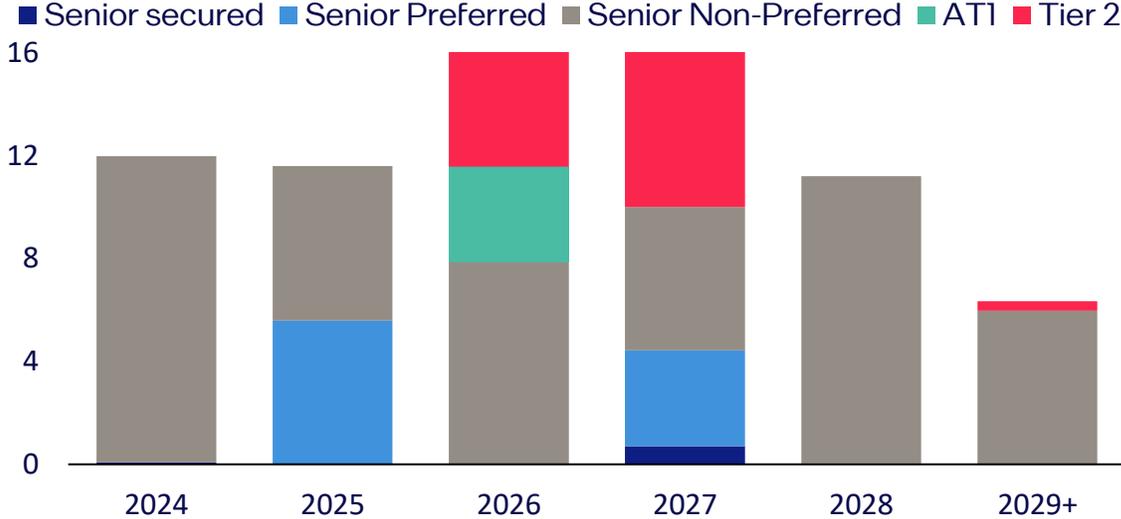
CET1 capital requirement and ratio



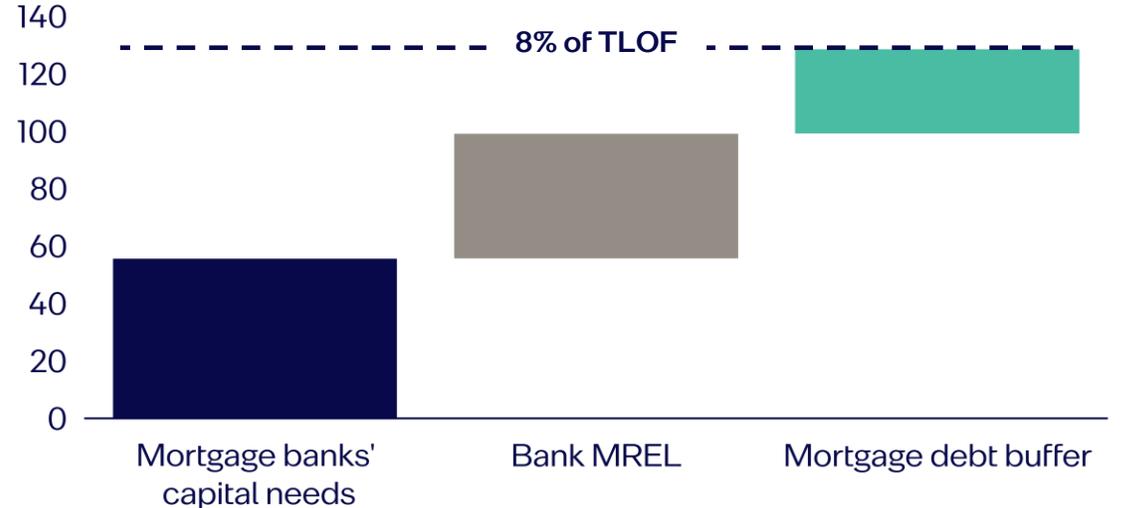
Funding needs driven by refinancing and REA growth

- The main driver of Nykredit's funding needs (excluding covered bonds) is the requirement to have sufficient regulatory bail-inable instruments
- The debt buffer of 2%, own funds and MREL eligible liabilities 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
- DKK 13bn has been issued in 2023 in SNP format
- Nykredit expects to issue approx. DKK 15-20bn in senior non-preferred and senior preferred in 2024

Nykredit Group maturity profile, DKKbn



Regulatory requirement for bail-inable instruments



Summary

Strong results and income diversification

- Highly satisfactory profit after tax of DKK 10.9bn and ROE of 11.4%
- Total income is up 21%, primarily driven by increasing deposit margins, continued volume growth, high trading and investment income as well as positive net interest from equity
- Improved income diversification as Banking and Wealth Management accounted for 41% of core income in 2023 vs 28% in 2019
- Lower NII sensitivity than peers as mortgage lending makes up 93% of Nykredit's balance sheet

Volume growth

- Continued volume growth in bank lending driven by Retail as well as Corporates & Institutions clients
- Mortgage volume growth is driven by Corporates & Institutions clients

Credit quality

- Customers remain financially robust despite geopolitical uncertainty, higher interest rates and inflation reflected in a net reversal of impairment charges amounting to DKK 0.2bn
- Provisions of DKK 2.1bn for losses related to geopolitical tensions remain intact

Costs

- Costs increased primarily driven by pay rises, performance bonuses and general price growth due to higher inflation
- Cost/income ratio of 32% is well below Nykredit's cost/income target of 40%

Guidance for 2024

- Guidance for profit after tax for 2024 of DKK 9.5-10.5bn
- Proposed dividends of DKK 5.4bn, corresponding to 50% of net profits



Appendix

Q4 vs Q3: Income down 3% due to trading and investment income

- Overall income down 3% Q/Q
 - Net interest income increased 3% due to higher interest rates
 - Net fee income up 30%, driven by funding income as well as higher mortgage activity in the last quarter of 2023
 - Wealth management income down 1% due to lower income from Asset Management
 - Trading and investment portfolio income down due to negative value adjustments on the portfolio of strategic bank equities
- Costs up 10%, driven by performance bonuses and costs related to renovation of current premises
- Impairment charges were a reversal of DKK 36m due to continued strong credit quality
- Business profit of DKK 3,398m compared with DKK 3,723m in Q3/2023
- Legacy derivatives were a loss of DKK 84m
- Profit after tax of DKK 2,558m compared with DKK 2,938m in Q3/2023

Business results Q4/2023 vs Q3/2023

DKKm	Q3/2023	Q4/2023	Index
Income	5,290	5,116	97
- Net interest income	3,101	3,199	103
- Net fee income	644	839	130
- Wealth management income	588	583	99
- Net interest from capitalisation	421	407	97
- Net interest income from customer benefit programmes	-76	-113	150
- Trading, investment portfolio and other income	610	202	33
Costs	1,592	1,755	110
Business profit before impairment charges	3,697	3,361	91
Impairment charges	26	36	140
Business profit	3,723	3,398	91
Legacy derivatives	111	-84	-
Profit before tax	3,834	3,314	86
Tax	897	755	84
Profit after tax	2,938	2,558	87

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