



Nykredit



Nykredit Group

FY 2020 Earnings call

11 February 2021

Numbers relate to Nykredit Group

Agenda

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Highlights of 2020
CEO Michael Rasmussen



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Financial performance, credit and funding plans
CFO David Hellemann



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Q&A

Nykredit annual report 2020



A very satisfactory result for 2020
Especially in light of the covid-19 pandemic



We experience volume growth and customer inflow
In both Nykredit and Totalkredit



We lend all over Denmark
And we make it more affordable and easier for the customers to opt
for green solutions

A very satisfactory result for 2020 that exceeds our expectations and guidance

DKKm	2019	2020
Income	14,656	14,569
Costs	-5,347	-5,773
Impairment charges	-994	-2,272
Business profit	8,314	6,524
Profit before tax	8,766	6,780
Net profit	7,427	5,664
RoAC after tax, % p.a.	12.4%	8.6%
Cost:Income ratio	36.5%	39.6%

Guidance for Business profit and Profit before tax, DKKbn :

Guidance in Annual report 2019
6.25 – 6.75

23 March 2020 announcement
Guidance suspended

Guidance in Q1/2020 interim report
2.5 – 3.5

11 August 2020 announcement
4.0 – 5.0

15 October 2020 announcement
5.5 – 6.0

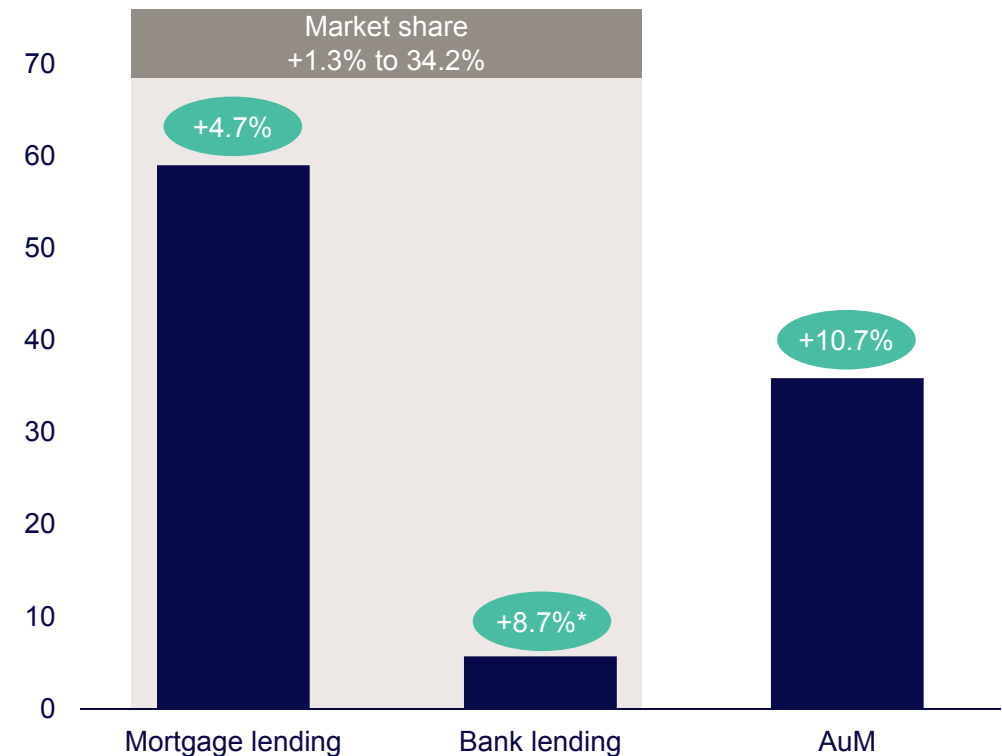
16 December 2020 announcement
6.1 – 6.3 and 6.2 – 6.4 respectively

20 January 2021 announcement
Business profit: DKK 6.5bn
Profit before tax: DKK 6.8bn

We experience volume growth and customer inflow

- Strong business performance with volume growth
 - Driven by households in mortgage lending
 - Corporates & Institutions in bank lending
 - Inflow of new funds in Wealth Management
- Our customer benefits programmes help attract new business
- We remain vigilant on credit standards
- Higher volumes are pushing up NII and Wealth Management income
- Remortgaging activity has kept NFI elevated and has triggered customer migration to us

Growth in all business areas since in 2019

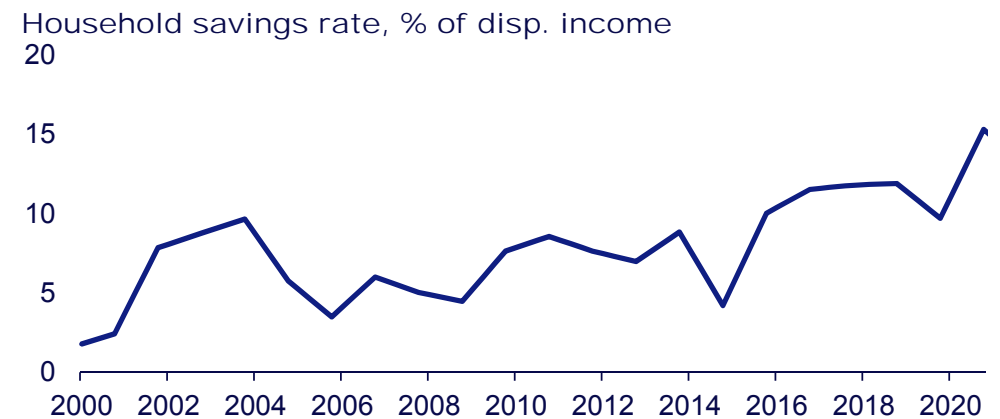
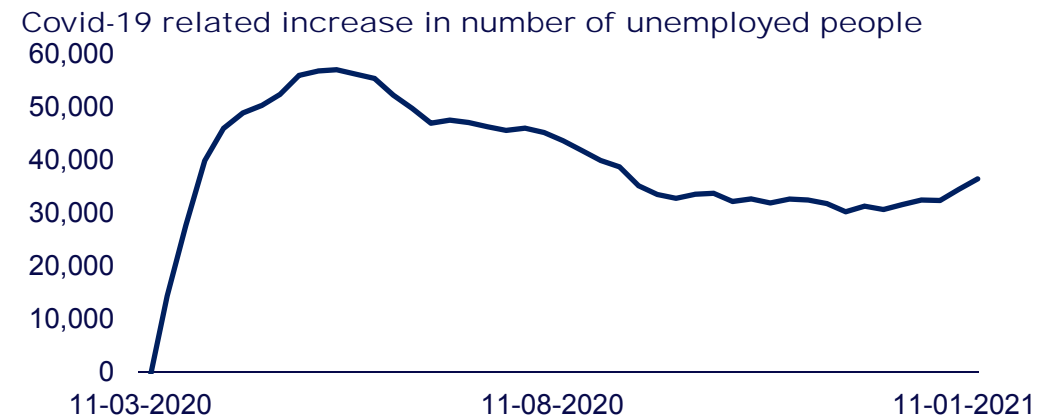


* Approx. half of the increase is bridge financing that will migrate to mortgage lending

Muted impact of the pandemic on the economy so far

We see few signs of financial stress for our customers

- Danish households and businesses have generally weathered the pandemic well
- The increase in unemployment since the outbreak has been around 35-40,000 people since autumn
- Consumers are saving more as they (can) spend less
- Pay-out of frozen holiday allowance also increased households' buffers
- Businesses are generally liquid due to government help and can service their debt
- But we will see credit losses in the most exposed sectors as the lockdown depletes equity



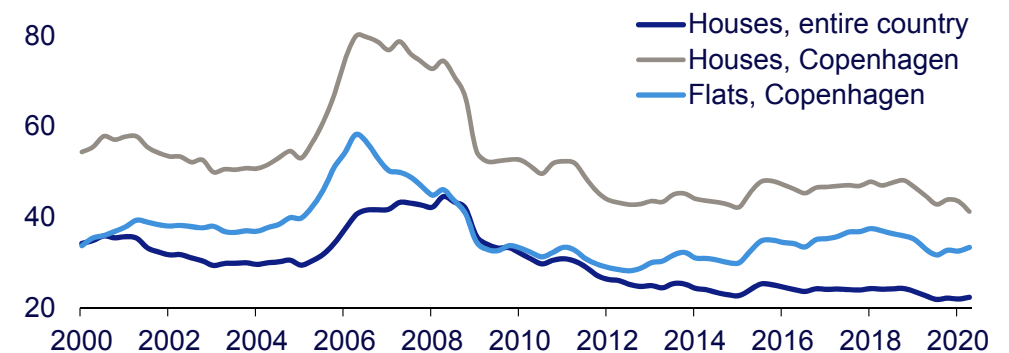
Source: Macrobond and Danish Ministry of Employment

The strongest housing market in a decade

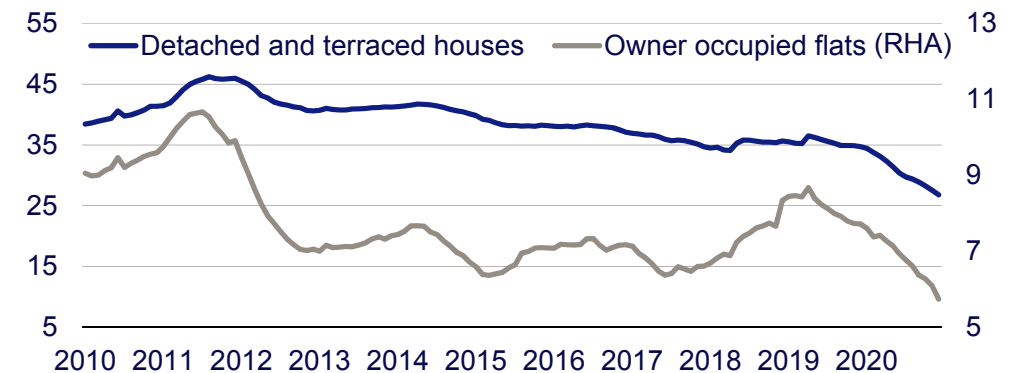
Turnover and prices went up in 2020

- The first lock down in March reduced turnover by approx. 50%
- But after a few weeks we saw a strong rebound and record high turnover
- Supply of properties for sale has remained high, but has not been able to keep up with sales
- Average prices for houses and appartements are up 4-5% for the year
- Affordability remain very favorable – but there may be sub-markets that are heating up
- We see no increase in deviations from the FSA's best practice underwriting guidelines
- We expect housing prices to increase again in 2021

Housing burden, % of disposable income



Number of properties for sale, 1,000s



Source: Macrobond and Nykredit

We support our customers through the pandemic

Offers to retail customers



Credit facilities



Overdrafts



Payment holidays on bank loans and personal loans

~600 applications



- We have so far seen very limited need for temporary support facilities

- Various government support schemes and pay-out of holidays allowances for households have covered most of the liquidity needs

Offers to commercial customers



Payroll finance



Credit facilities



Payment holidays on bank loans and leasing contracts



Bridge financing of VAT

~450 applications



- No general payment holiday scheme for mortgages in Denmark

- Vast majority of credit facilities approved relate to SMEs and large corporates

Source: Nykredit

Nykredit

Green initiatives at Nykredit

Green initiatives

- Loans promoting energy renovation
- Discount on car loans for electric and hybrid cars
- A contribution of DKK 10,000 to 3,000 customers who replace their oil fired boilers with heat pumps
- Leasing product for farmers
- Responsible investments for customers through Nykredit's Nordic Swan Ecolabelled equity fund
- Founding of Nyskovfonden (New Forest Trust) to help plant new forests
- The initiatives are sponsored by Forenet Kredit, which has contributed DKK 200m
- Nykredit has launched a new Green Bond Framework
- We have reduced our own CO₂ emissions by 84% since 2012



Our 4 sustainable development priorities



Housing



Businesses & properties



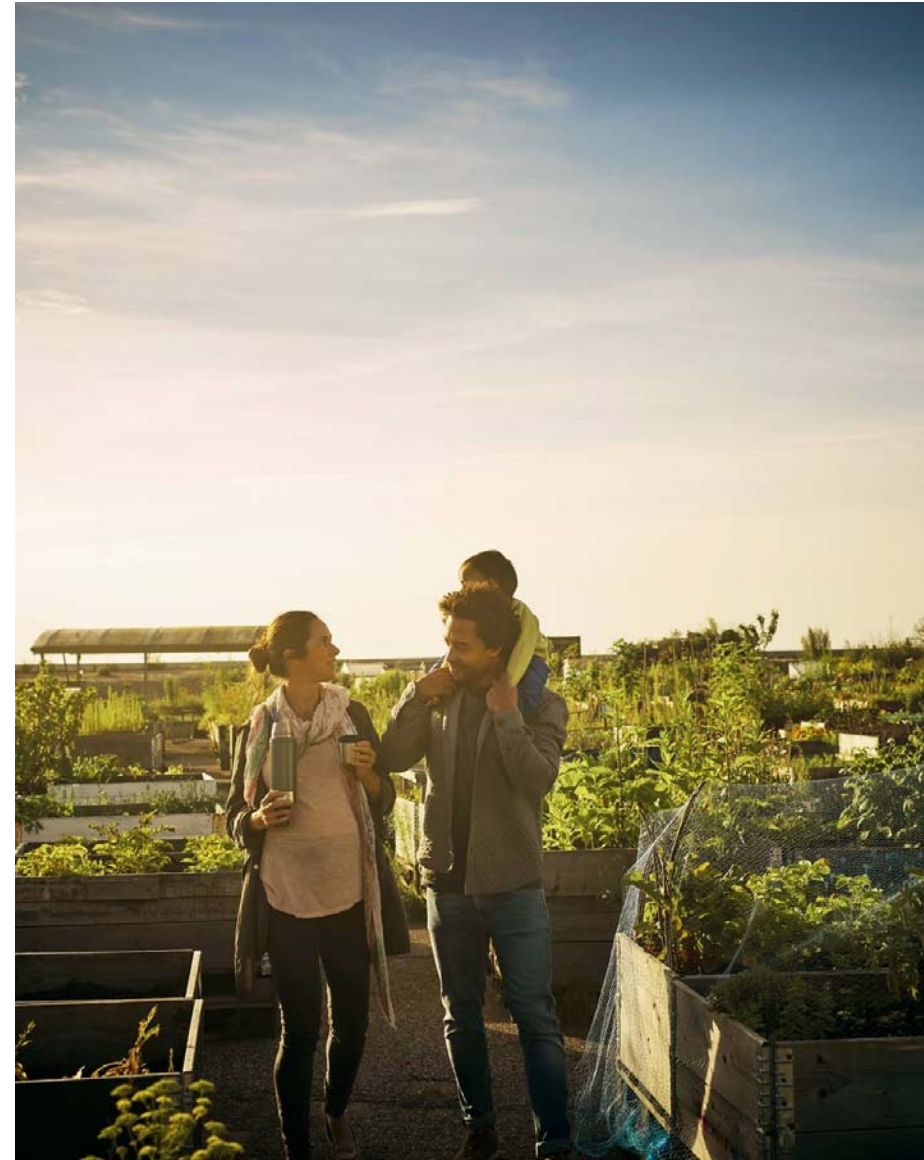
Agriculture



Responsible investment

Nykredit expects to resume dividend payment

- The 2020 result is in line with pre-covid expectations
- Despite significant impairment provisions for the pandemic we build up capital in line with projections
- Nykredit expects to pay a 40% dividend which comply with the Danish FSA recommendations of prudent dividends
- CET1 of 20.1% post dividends payment
- 79% of dividends is paid to the mutual main shareholder Forenet Kredit which has historically given a large share of the dividends back to Nykredit to fund customer programmes



Summary

Strong results and volume growth	<ul style="list-style-type: none">■ Very satisfactory business profit of DKK 6.5bn with NII, NFI and Wealth Management Income 3% higher than last year■ Volume growth in especially retail mortgage lending and bank lending to larger corporates
Credit quality and covid-19	<ul style="list-style-type: none">■ Credit quality remains strong reflected in underlying impairments of 1 bps.■ Significant and prudent impairment charge for possible covid-19 impact
We support our customers and society	<ul style="list-style-type: none">■ We have increased lending in all 98 municipalities in Denmark in line with commitment to support development nationwide■ We stand ready with credit facilities for customers impacted by the corona pandemic
ESG and green initiatives	<ul style="list-style-type: none">■ Nykredit's ESG rating from MSCI upgraded to "A"■ Launch of several green products and initiatives as well as a more comprehensive green bond framework
Guidance for 2021	<ul style="list-style-type: none">■ Profits for 2020 is in line with pre-covid expectations despite a DKK 2.1bn impairment charge for covid-19■ Guidance for business profit and result before tax for 2021 between DKK 6bn – 6.5bn



Financial performance, credit and funding

CFO David Hellemann

Group income statement – 2020 vs 2019

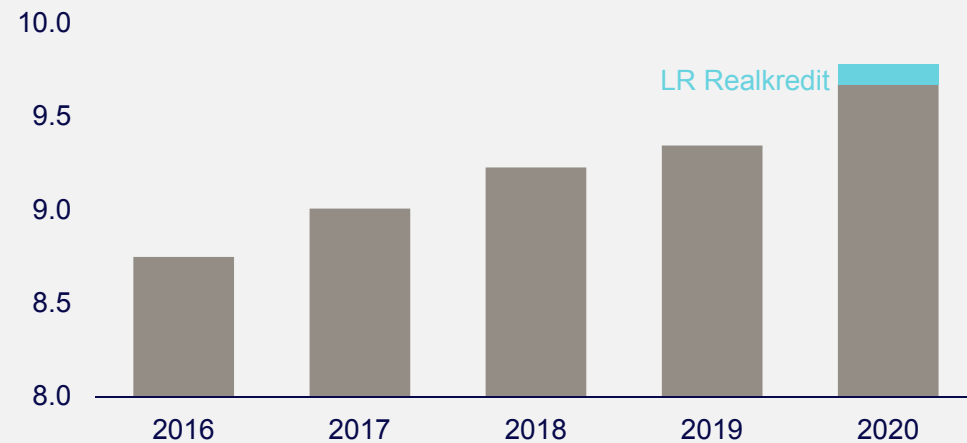
DKKm	2019	2020	Change	
Net Interest Income	9,344	9,780	+5%	Driven higher by volume growth and adjustment of negative deposit rates
Net Fee Income	2,739	2,367	-14%	Remortgaging activity remained elevated, although lower than the exceptional high level in 2019
Wealth Management Income	1,610	1,950	+21%	Positive effect of Sparinvest acquisition but AuM lower for part of the year due to covid-19 related negative value adjustments
Customer benefits & capitalisation costs	(710)	(624)	-12%	Cap. cost up DKK 66m to DKK 421m due to ramp up of bail-inable debt
Trading and Investment portfolio	1,673	1,097	-34%	Lower than the very high level in 2019
Costs	5,347	5,773	+8%	Higher costs due to customer inflow, acquisition of Sparinvest and Shared Valuation, as well as IT and investments in compliance
Impairment charges	994	2,272	+129%	Impairments of 15 bps. of which 91% relates to covid-19 Ordinary impairments remain low at DKK 213m or 1 bps.
Business profit	8,314	6,524	-22%	In line with original expectations despite covid-19 related headwind
Legacy derivatives & badwill	452	256	-43%	Positive value adjustment driven by tighter credit and funding spreads
Profit before tax	8,766	6,780	-23%	Slightly better than pre-covid-19 guidance. A very satisfactory result

Net Interest Income up 5% driven by volume growth

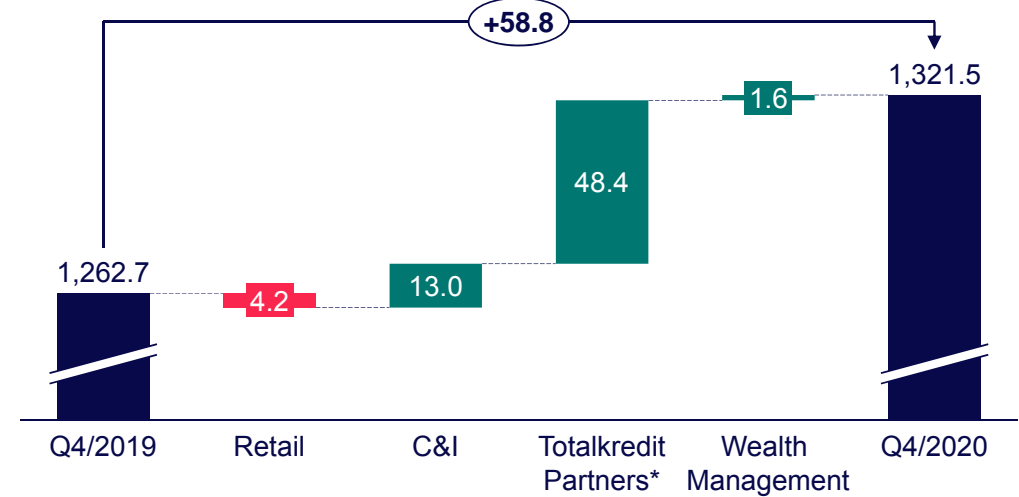
Volume growth offset shift in mortgage product mix

- We see consistent growth in NII
- Driven mainly by higher loan volumes in mortgage and bank lending
- Margins on mortgages remains under pressure due to shift in product mix
- Adjustment in deposit margins with negative interest rates lifts NII

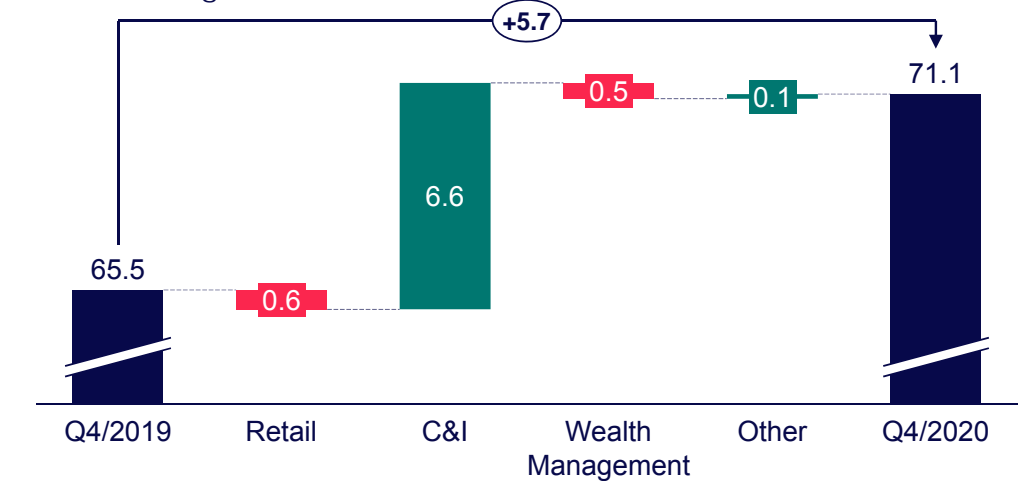
NII, DKKbn



Mortgage lending, DKKbn



Bank lending, DKKbn



* Not including secured home loans

11 February 2021

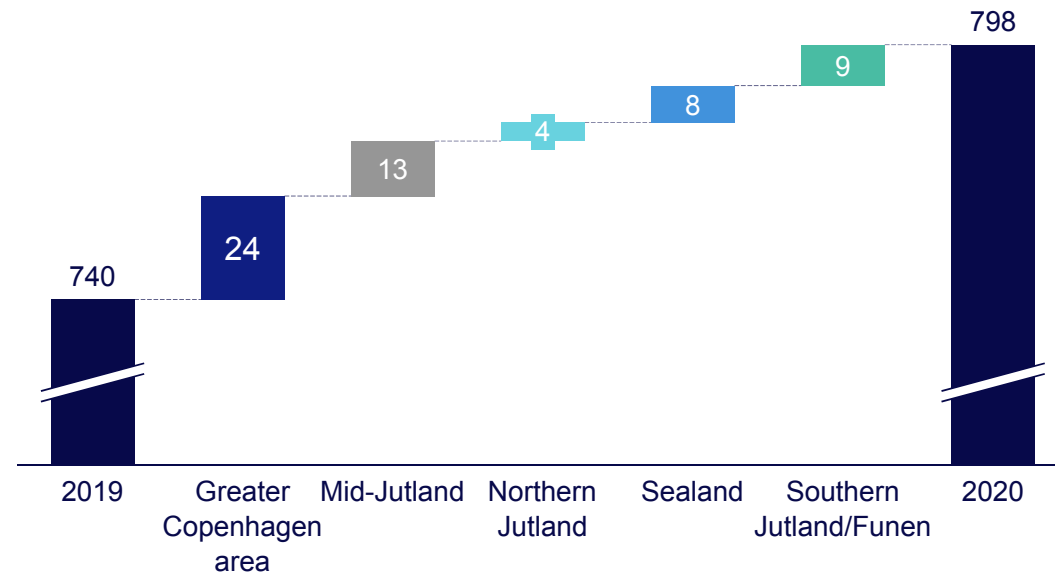
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Increase in Totalkredit mortgage lending dominated by areas with strong economic growth

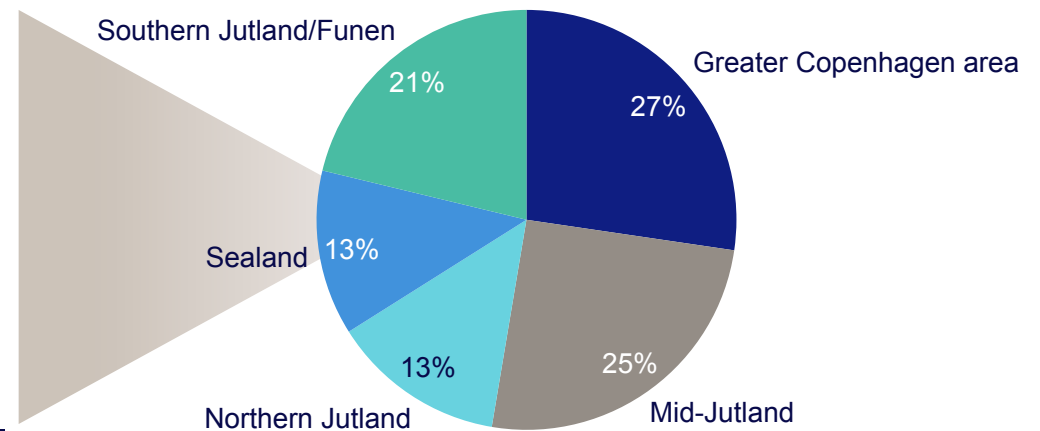
- 60% of the growth in 2020 came in Copenhagen and Mid-Jutland
- Areas where mortgage values have historically been most resilient
- We see robust credit quality with new customers

- Average indexed LTV ratio for the portfolio is stable to declining
- Driven by higher property prices and more loans with amortisation

Geographic split of loan growth, DKKbn

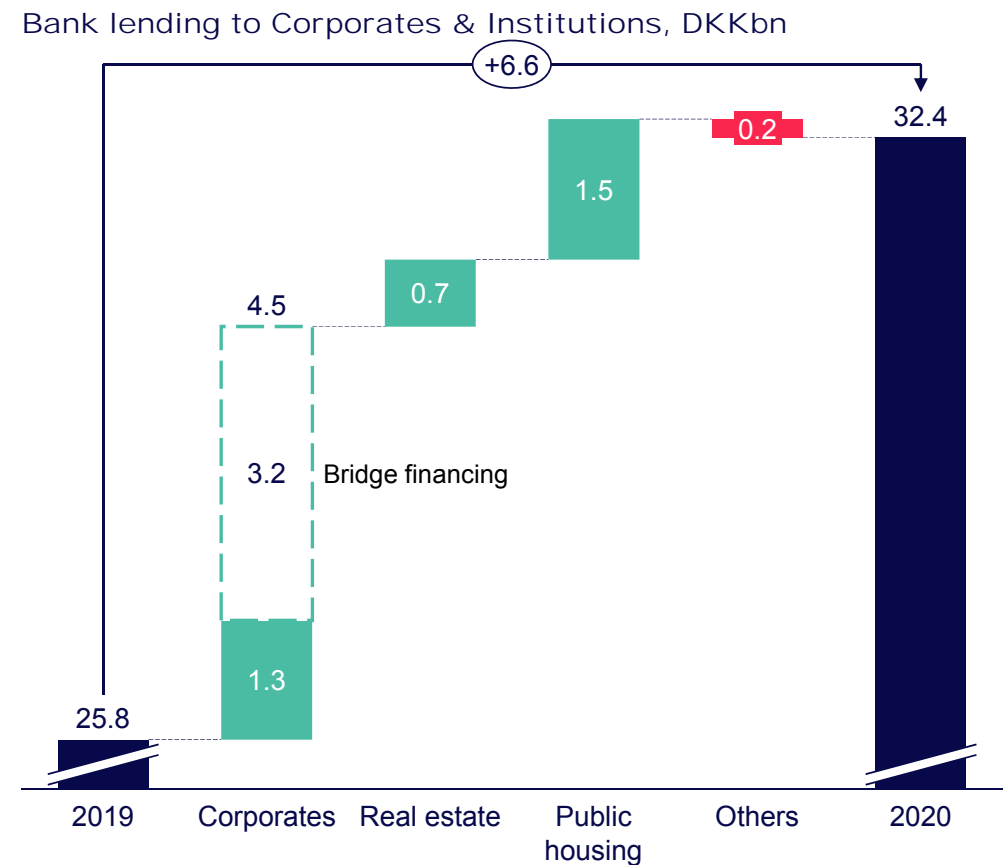


Distribution of loan stock in Totalkredit



Corporates & Institutions drive growth in bank lending

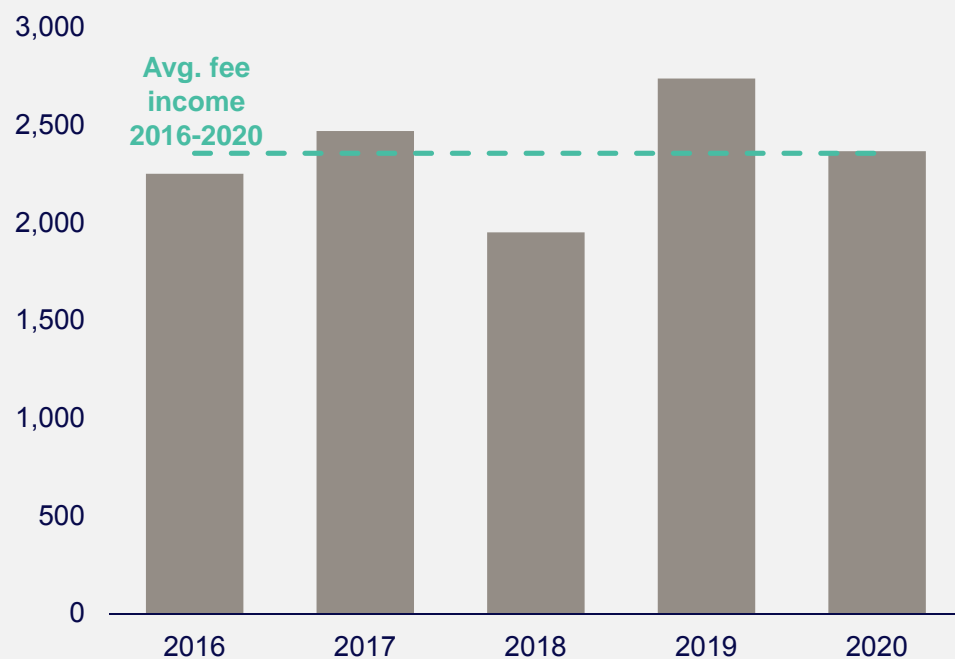
- During and just after the market turmoil in Q1 we saw some large corporates temporarily hoarding liquidity
- Good demand for new bank loans from a wide range of high grade customers
- Almost half of the increase in bank lending stems from bridge financings
- A testament to Nykredit's advisory business
- The vast majority of bridge financing will eventually migrate to mortgage lending



Net fee income

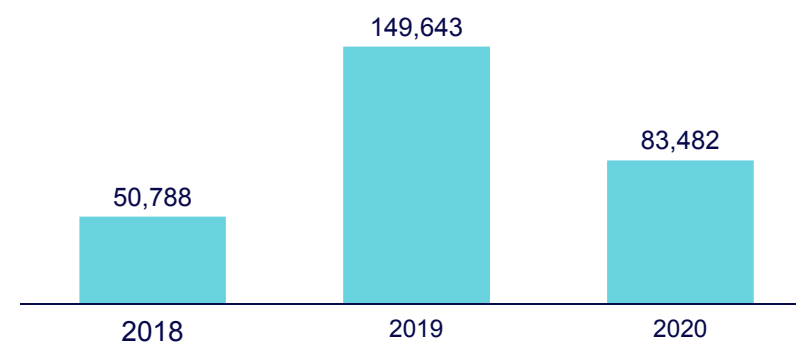
NFI, DKKm

- A strong 2020 with continued remortgaging activity...
- ... but at a lower level than the extraordinary year 2019

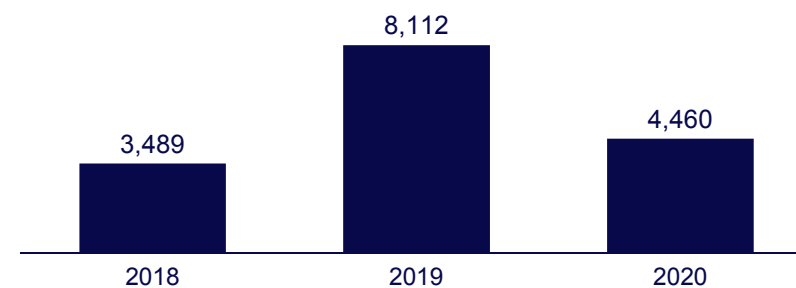


Remortgaging activity – No. of loans

Retail customers



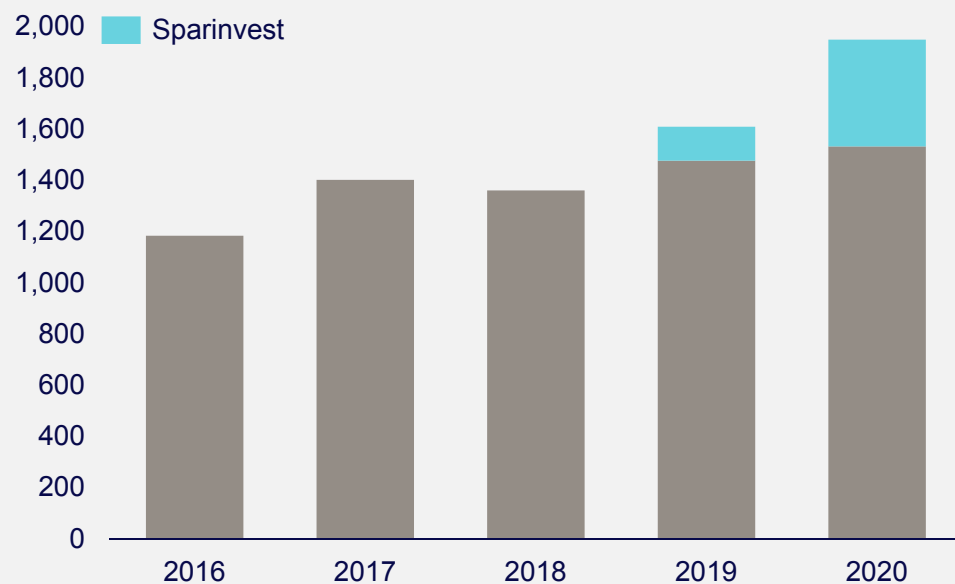
Business customers



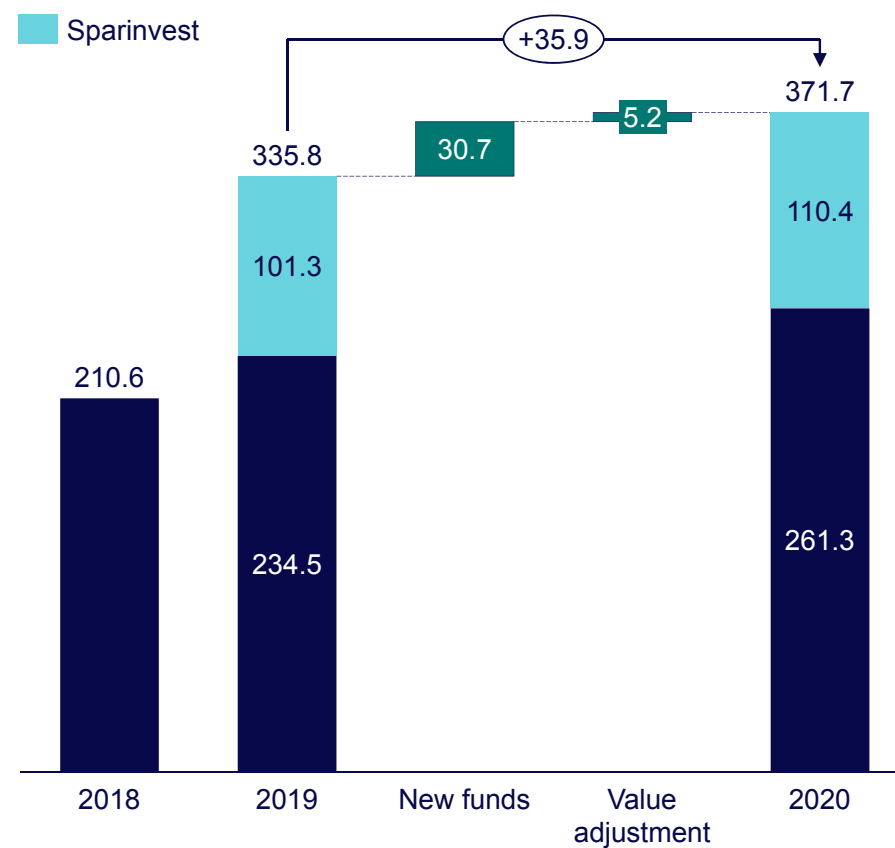
Wealth Management Income

Wealth Management Income, DKKm

- First full year with Sparinvest included in Wealth Management
- Organic growth in AuM of 9% driven by both Sparinvest and Nykredit AM
- Income negatively impacted by covid-19 during Q2 and Q3 as AuM declined
- Value adjustments turned positive during the year as markets recovered



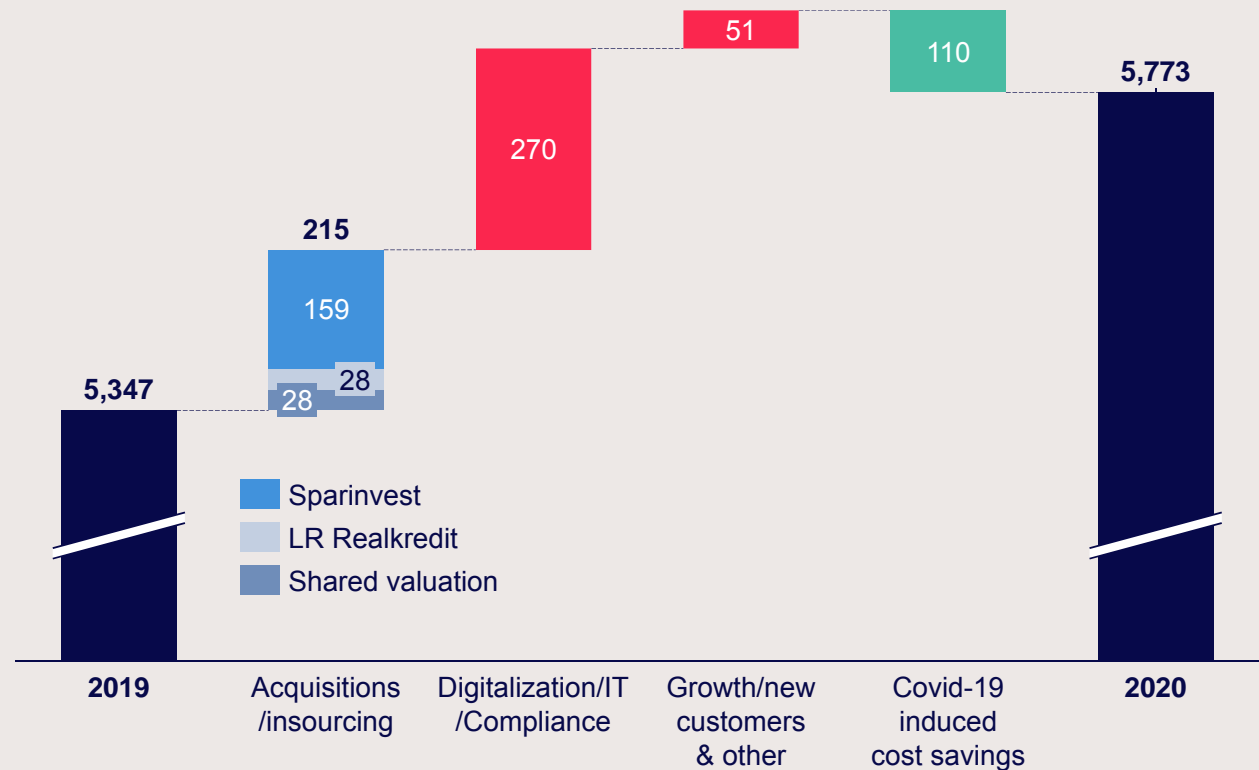
Assets under Management, DKKbn



Cost development

- Costs are up DKK 426m on last year
- Half of the increase is due to acquisitions and insourcing:
 - Acquisition of asset manager Sparinvest and mortgage bank LR Realkredit
 - Insourcing of property appraisals aka Shared Valuation
- Costs also driven higher by compliance and IT/digitalization
- Cost savings of DKK 110m in light of the covid-19 situation

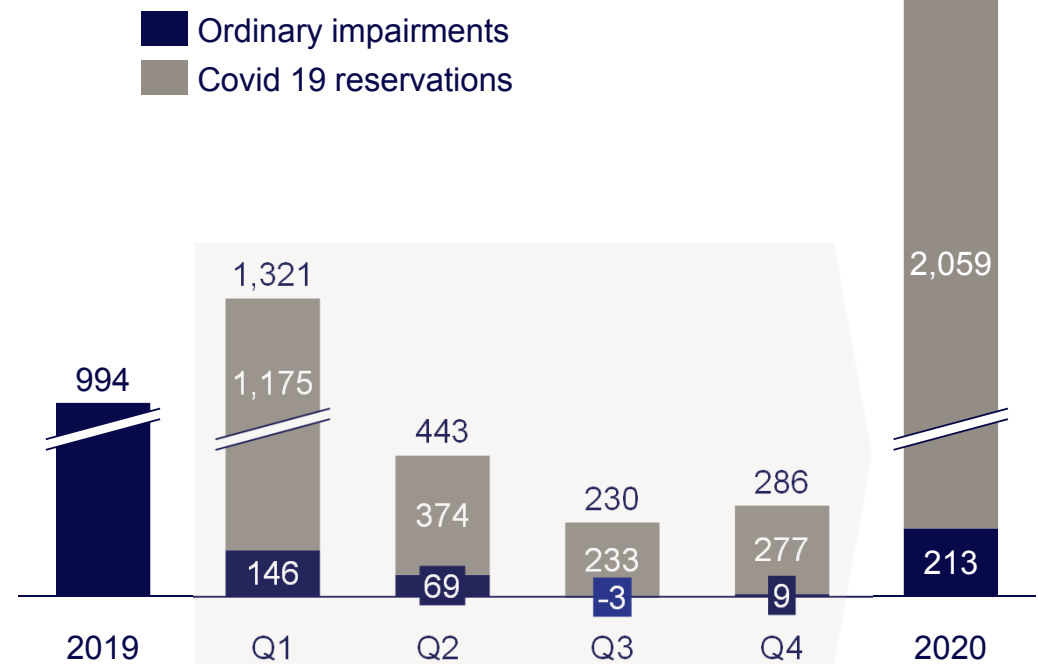
Change in costs from 2019 to 2020, DKKm



Impairment charges driven by covid-19

- Underlying impairment charges remain very low at DKK 213m or just over 1 bps. in 2020
- The covid-19 pandemic has increased impairment charges significantly in 2020
 - Covid-19 impairment charge of DKK 2,059m equal to 13 bps.
 - DKK 277m of covid-19 impairments were added in Q4
 - Primarily related to business mortgage exposures
- So far we have not seen individual loan losses related to covid-19

Impairment provisions, DKKm



Basis for covid-19 related impairments

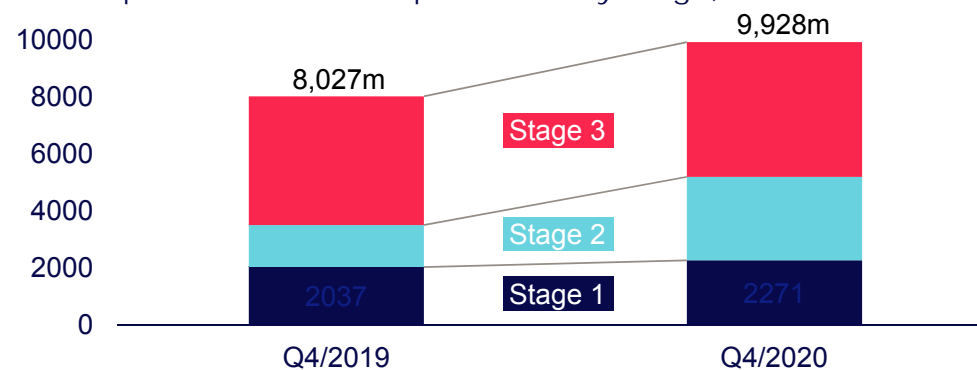
- Pandemic related impairments amount to DKK 2,059m and are based on model simulations
- Macroeconomic scenarios of the model have been updated to allow for the covid-19 impact, including mitigating aid packages
- Nykredit has updated the scenarios used for calculating impairments and changed the likelihood of the scenarios:
 - 55% probability to the main scenario
 - 35% to the adverse scenario and
 - 10% to the benign scenario which equals the current economic situation

Macro economic assumptions for main scenario (55% prob.)

Per cent	2018	2019	2020e	2021e	2022e
Short interest rate	-0.3	-0.4	-0.2	-0.2	-0.2
Long interest rate	0.4	-0.2	-0.3	-0.2	-0.1 ▼
House prices	3.8	3.0	2.0 ▲	2.0 ▲	1.9 ▼
GDP	2.4	2.4	-3.8 ▲	3.4 ▼	2.6 ▼
Unemployment rate	3.1	3.1	4.7 ▼	4.4 ▼	4.2 ▼

Arrows indicate revisions since Q3/2020

Development in IFRS 9 impairments by stage, DKKm



Loan portfolio risk and exposure to covid-19 impact

Limited exposure to sectors with high sensitivity to covid-19

- Covid-19 impact on all sectors has been reassessed in light of the past year's experience and the impact of lock downs
- 9% of total lending is to sectors deemed to have a high risk of being impacted by the pandemic
 - 94% of these loans are secured by mortgages

	End Q3/2020	Change	End Q4/2020
High risk	6%	+3%	9%
Moderate risk	25%	-12%	13%
Low risk	69%	+9%	78%

New assessment

Previous assessment

Accommodation & food services
Retail trade
Renting of non-residential buildings
Arts, entertainment & sports

▲ Moderate risk
▲ Low risk

Transport and motor vehicle industry
Construction and manufacturing
Outside Denmark
Finance and insurance
Private services
Wholesale
Real estate

▲ High risk
▲ High risk
▲ Low risk
▲ Low risk
▲ High risk

Households
Energy and utilities
Public sector
Housing
Agriculture
Public services
Other

▲ Moderate risk

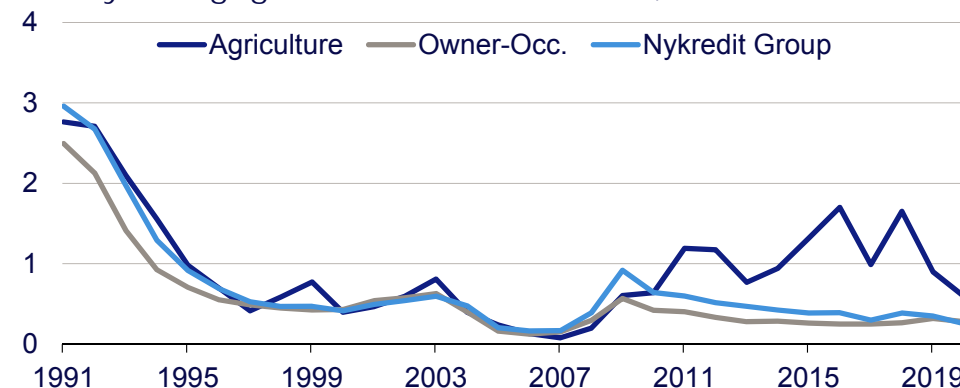
Credit quality remains robust but covid-19 will eventually lead to credit losses

Credit quality

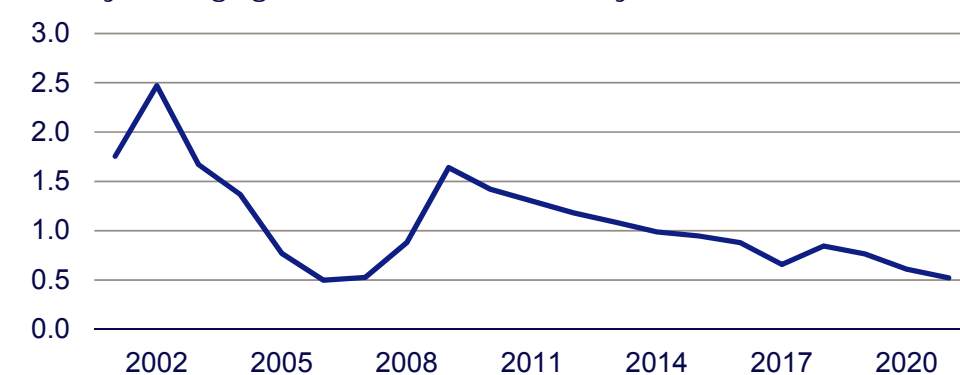
- Estimates of potential GDP decline and recovery path vary considerably
- Unemployment and property prices are key drivers of credit risk for Nykredit
 - Unemployment has edged somewhat higher during second lock down before Christmas and into 2021
 - The housing market has been surprisingly strong from mid-2020
- Danish households are more robust than prior to the global financial crisis and many have accumulated large savings during lock down
- Some commercial customers in select sectors are challenged, but debt servicing has been kept due to government support packages
- Nykredit has virtually no exposure to oil/gas, shipping and airlines

Source: Nykredit company reports and Fact Book

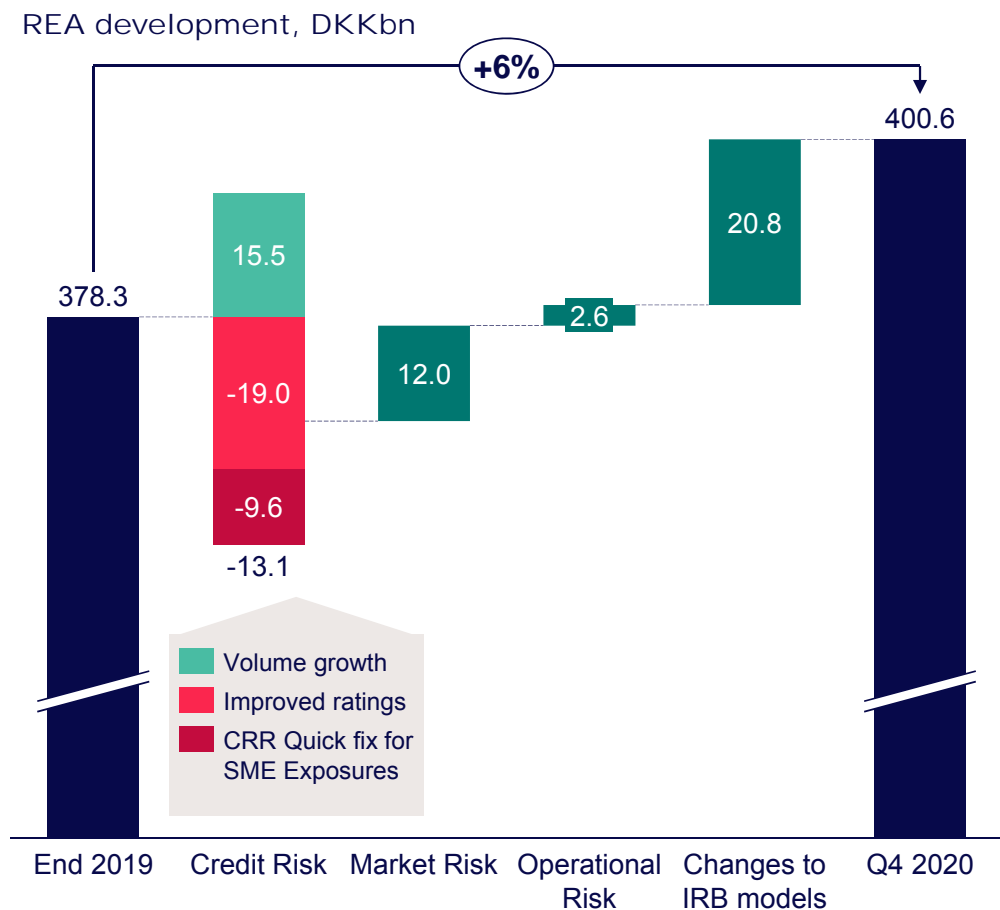
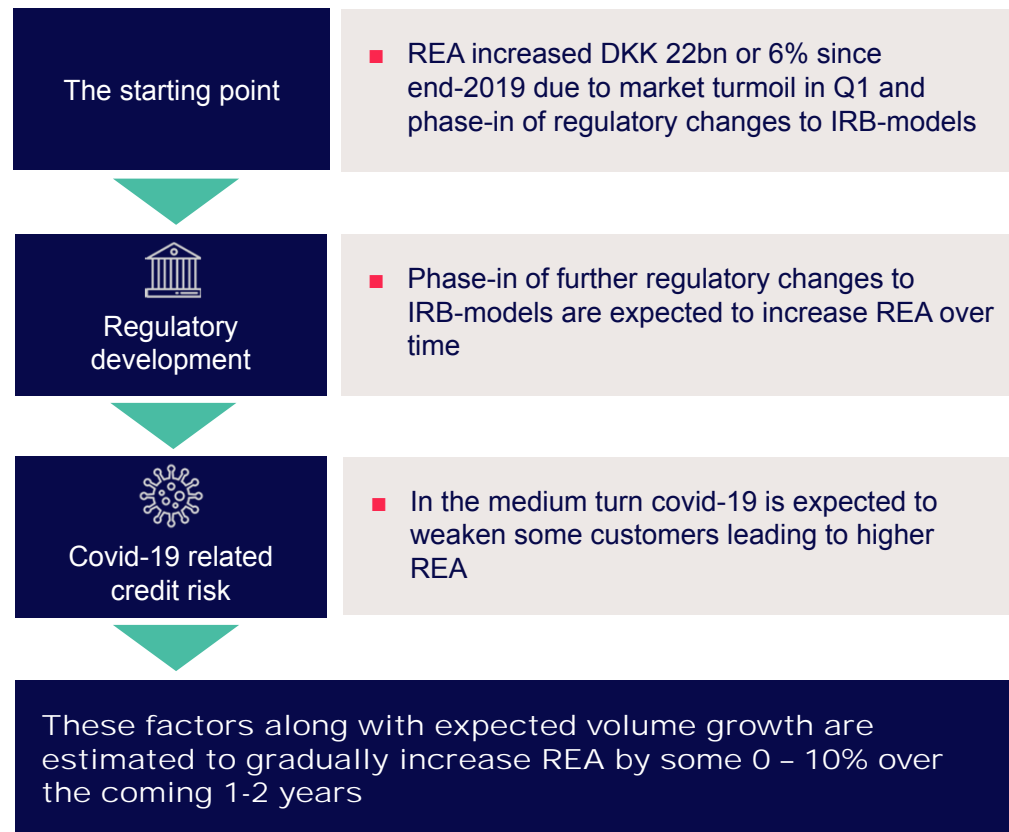
75-day mortgage arrears to latest term, %



15-day mortgage arrears to 1 January term, %



Ongoing upward pressure on REA

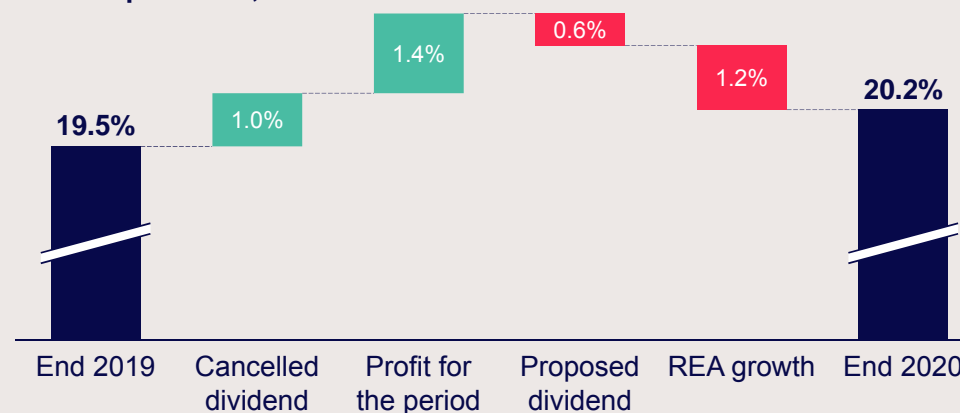


Strong capitalisation

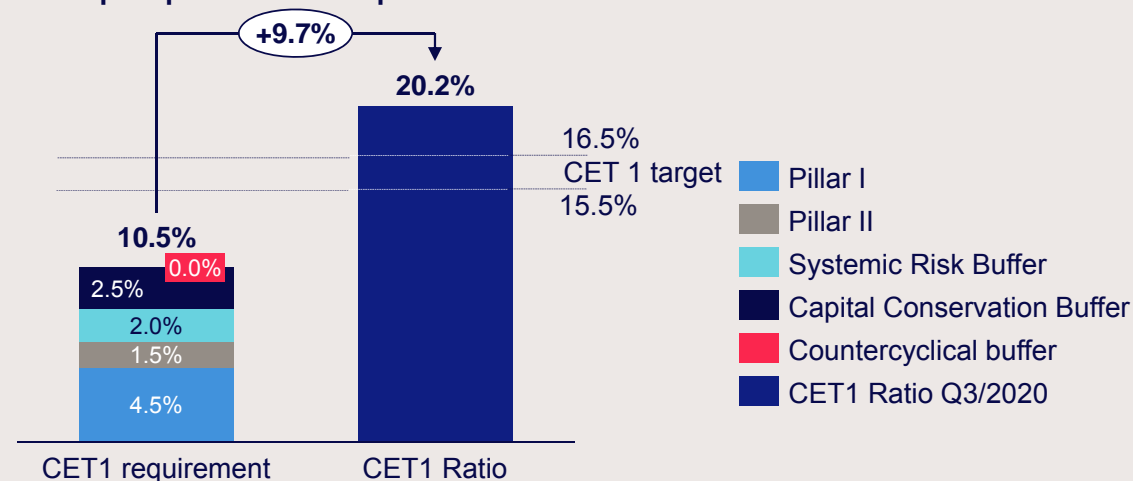
Capital highlights

- Dividends of DKK 3.6bn for 2019 have not been paid as per Danish FSA recommendation to all Danish banks
- As per agreement with the Danish FSA Nykredit will only pay 40% dividends for 2020
- Dividend policy unchanged at 50% pay-out
- CET1 ratio has increased 60 bps. driven by cancelled dividends for 2019
- Nykredit still strongly capitalised with CET1 ratio of 20.2% which is some 400 bps above the capital policy target
 - Part of Nykredits strong capitalisation is reserved for the future effect of Basel IV
- Also significant buffer of 9.7%-points to current CET1 requirement of 10.5%

CET1 capital ratio, end 2019 to end 2020



CET1 capital position and requirement



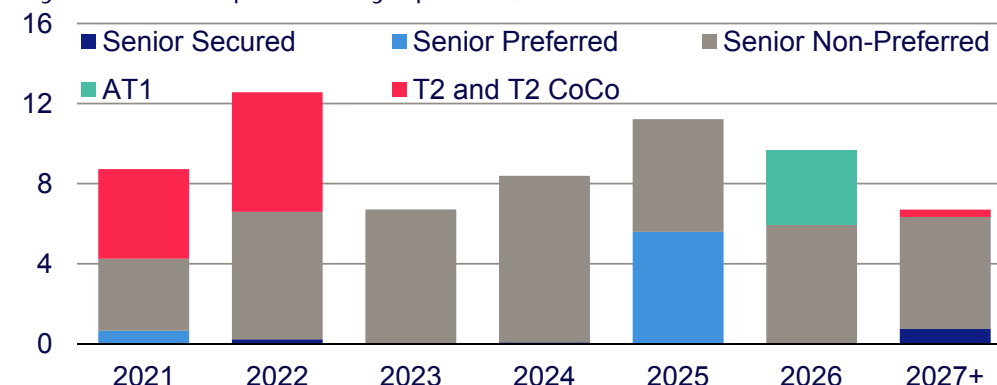
Funding and ratings

Funding

- The main driver of Nykredit's funding needs is the requirement to hold at least 8% of TLOF in bail-inable format by 2022
- The amount of bail-inable liabilities is expected to increase from currently DKK 146bn to approx. 150bn by end-2021
- Nykredit expects to issue approx. DKK 15bn during 2021 of which the majority will be in bail-inable format
 - DKK 1bn has already been issued in 2021 in SNP format
- In covered bonds we are conducting our quarterly refinancing auctions of some DKK 24bn, which will end on 12 February

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

Nykredit Group maturity* profile, DKKbn



Nykredit's ratings

	S&P Global	FitchRatings
Covered bonds	AAA	-
Snr. unsecured preferred debt	A+	A+
Short-term debt	A-1	F1
Outlook	Stable	Stable
Senior Non-Preferred	BBB+	A
Tier 2	BBB	BBB+
Tier 2 Coco	BBB	BBB+
Additional Tier 1	BB+	-

Concluding remarks

Result and Income from business	<ul style="list-style-type: none">■ Very satisfactory business profit of DKK 6.5bn – Net profit of DKK 5.7bn■ Strong growth in lending and Wealth Management drives NII, NFI and Wealth Management Income 3% higher than last year■ Income from Trading, investment portfolio and derivatives recovered after Q1 losses to a profit of DKK 1.1bn
Costs	<ul style="list-style-type: none">■ Inflow of new customers via organic growth and acquisitions drives costs higher – including for IT. Also higher compliance costs■ Insourcing of property appraisals has increased costs, but these are largely covered by partner banks■ Cost:Income ratio of 39.6% for the year
Impairments and covid-19	<ul style="list-style-type: none">■ Credit quality remains strong reflected in underlying impairments of 1 bps.■ Significant and prudent impairment charge of 14 bps. for covid-19 impact profits negatively■ We have still not see actual corona related loan losses
Growth in business volumes	<ul style="list-style-type: none">■ We continue to see healthy inflow of new retail and commercial customers with good credit quality■ Satisfactory volume growth in especially retail mortgage lending and bank lending to larger corporates
Dividends and guidance for 2021	<ul style="list-style-type: none">■ Profits for 2020 is in line with pre-covid expectations despite a DKK 2.1bn impairment provision for the impact of the pandemic■ Nykredit has thus decided to pay 40% dividends maintaining very strong capitalisation with CET1 of 20.2%■ Guidance for business profit and result before tax for 2021 between DKK 6bn – 6.5bn



Appendix

Q4 vs. Q3: Income 14% higher driven by NII and due to trading and investment portfolio income

Lower trading and investment income and impairments

- Overall income up 14% Q/Q
 - NII increased 2% on volume growth
 - Net Fee Income 1% lower
 - Wealth management income up 10%
 - Trading and investment portfolio income more than doubled
- Costs up 2%
- Impairment charges amounted to DKK 286m of which DKK 277m was reservations for covid-19 impact
- Business profit of DKK 2,554m compared with DKK 2,095 in Q3/2020
- Legacy derivatives recorded a positive value adjustment of DKK 206m
- Profit before tax of DKK 2,760m compared with DKK 2,250m in Q3/2020

Business results Q4/2020 vs Q3/2020

DKKm	Q3/2020	Q4/2020	Index
Income	3,779	4,319	114
- Net interest Income	2,448	2,500	102
- Net fee income	618	613	99
- Wealth management income	459	504	110
- Net interest from capitalisation	-109	-114	105
- Net interest income fr. customer benefit programmes	-57	-49	86
- Trading, investment portfolio and other income	420	866	206
Costs	1,454	1,479	102
Business profit before impairment charges	2,357	2,841	122
Impairment charges	230	286	124
Business profit	2,095	2,554	122
Legacy derivatives	154	206	134
Badwill	-	-	-
Profit before tax	2,250	2,760	123
Tax	437	474	108
Profit	1,812	2,286	126

Loan portfolio risk and exposure to covid-19 impact

Limited exposure to sectors with high sensitivity to covid-19

- Covid-19 impact on all sectors have been reassessed in light of the past year's experience and the impact of lock downs

	End Q3/2020	Change	End Q4/2020
High risk	6%	+3%	9%
Moderate risk	25%	-12%	13%
Low risk	69%	+9%	78%

- Covid-19 related impairments are split in DKK 1,446m distributed across sectors and DKK 613m related to macro economic factors
- The composition of Nykredit's loan portfolio is very stable over time due to mortgage focus

Loan portfolio split by sectors and their potential impact by covid-19

DKKm	Lending	Of which mortgage	Covid-19 impairments
Accommodation & food services	4,196	87.6%	20
Retail trade	6,205	71.2%	24
Renting of non-residential buildings	109,997	96.0%	341
Arts, entertainment & sports	1,891	84.9%	9
Transport and motor vehicle industry	11,564	46.8%	47
Construction and manufacturing	33,299	63.6%	63
Outside Denmark	81,988	85.6%	164
Finance and insurance	15,107	20.0%	8
Private services	17,196	50.9%	45
Wholesale	9,399	41.2%	59
Real estate	15,124	68.5%	18
Households	850,112	97.0%	276
Energy and utilities	13,090	39.7%	19
Housing	154,325	95.5%	127
Agriculture	79,092	97.1%	211
Public services	14,673	88.1%	12
Other	4,043	99.6%	4
Total	1,421,302	92.1%	1,446

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