

Nykredit Group

FY 2021 Earnings call

9 February 2022

Numbers relate to Nykredit Group

Agenda

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Highlights of 2021

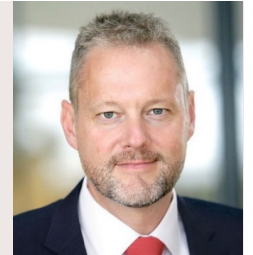
CEO Michael Rasmussen



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Financial performance, credit and funding plans

CFO David Hellemann



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Q&A

Highlights of Nykredit in 2021



A very satisfactory result for 2021

- Highest profit before tax ever
- Tail wind from financial markets



Volume growth and customer inflow

- Growth in mortgage lending volumes as well as in bank lending
- Strong growth in Wealth Management with AuM up 18%



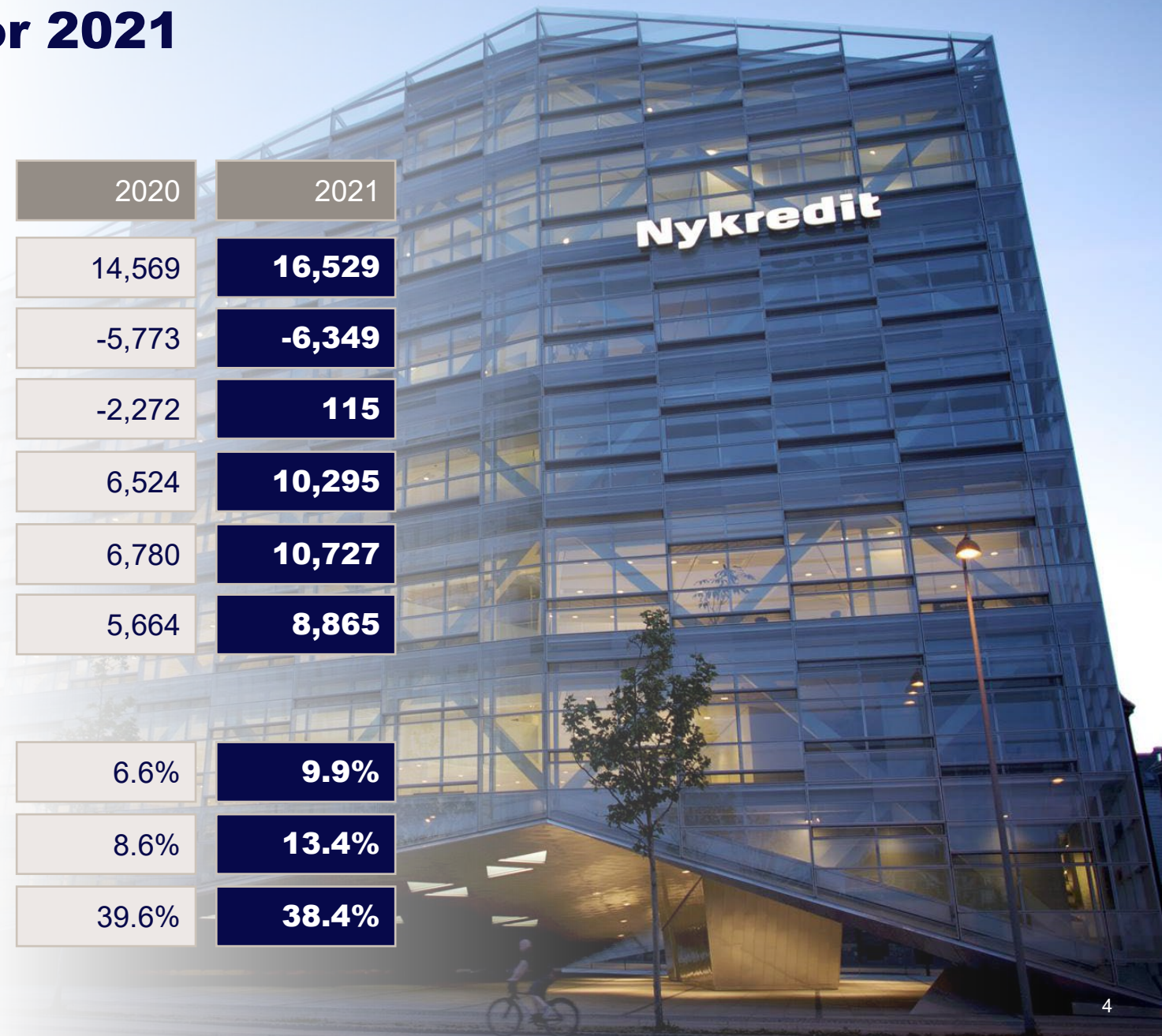
Strong capitalisation and credit quality

- CET1 ratio of 20.6% and return to 50% dividend pay-out ratio
- Strong credit quality with loan loss impairments posting a net gain
- Reservation of DKK 2.1bn for covid-19 related losses remains intact

A very satisfactory result for 2021

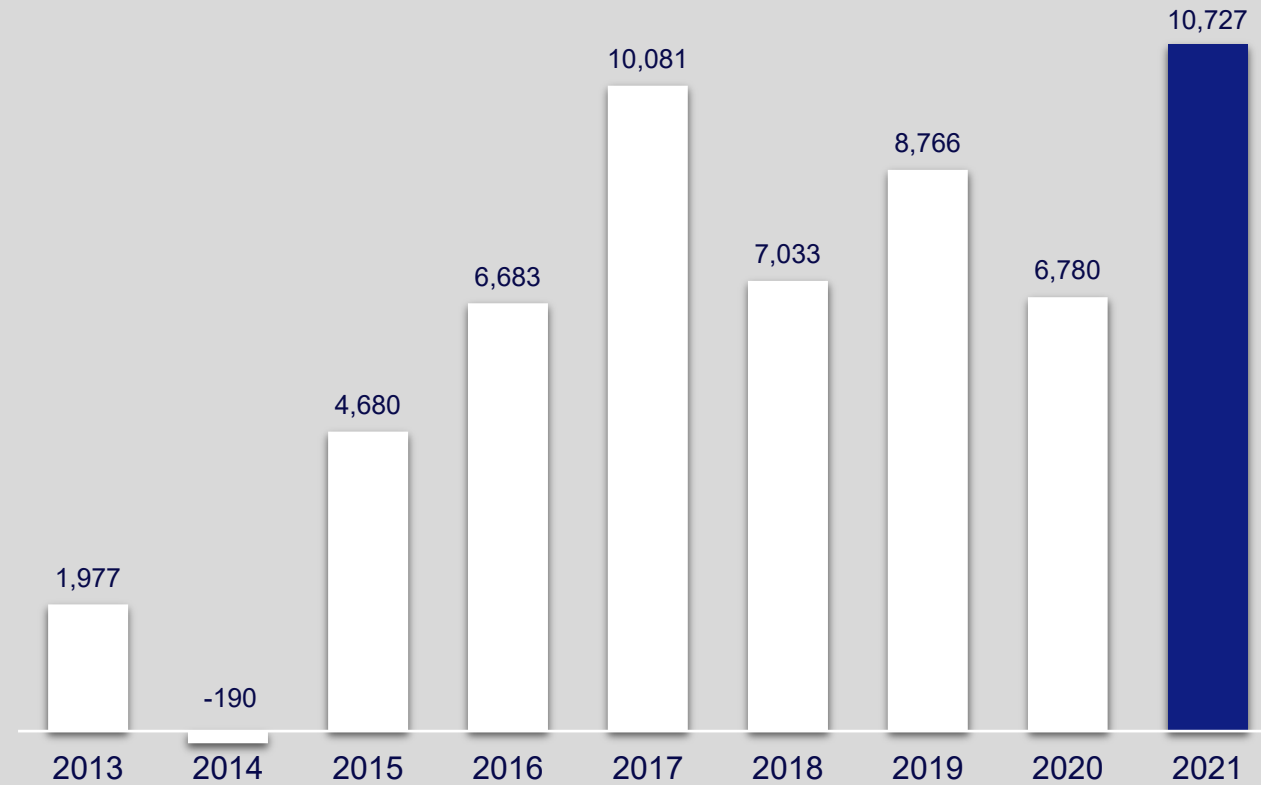
Exceeding our expectations

DKKm	2019	2020	2021
Income	14,656	14,569	16,529
Costs	-5,347	-5,773	-6,349
Impairment charges	-994	-2,272	115
Business profit	8,314	6,524	10,295
Profit before tax	8,766	6,780	10,727
Net profit	7,427	5,664	8,865
Return on equity after tax, % p.a.	9.3%	6.6%	9.9%
ROAC after tax, % p.a.	12.4%	8.6%	13.4%
Cost:Income ratio	36.5%	39.6%	38.4%



The best result in Nykredit's history

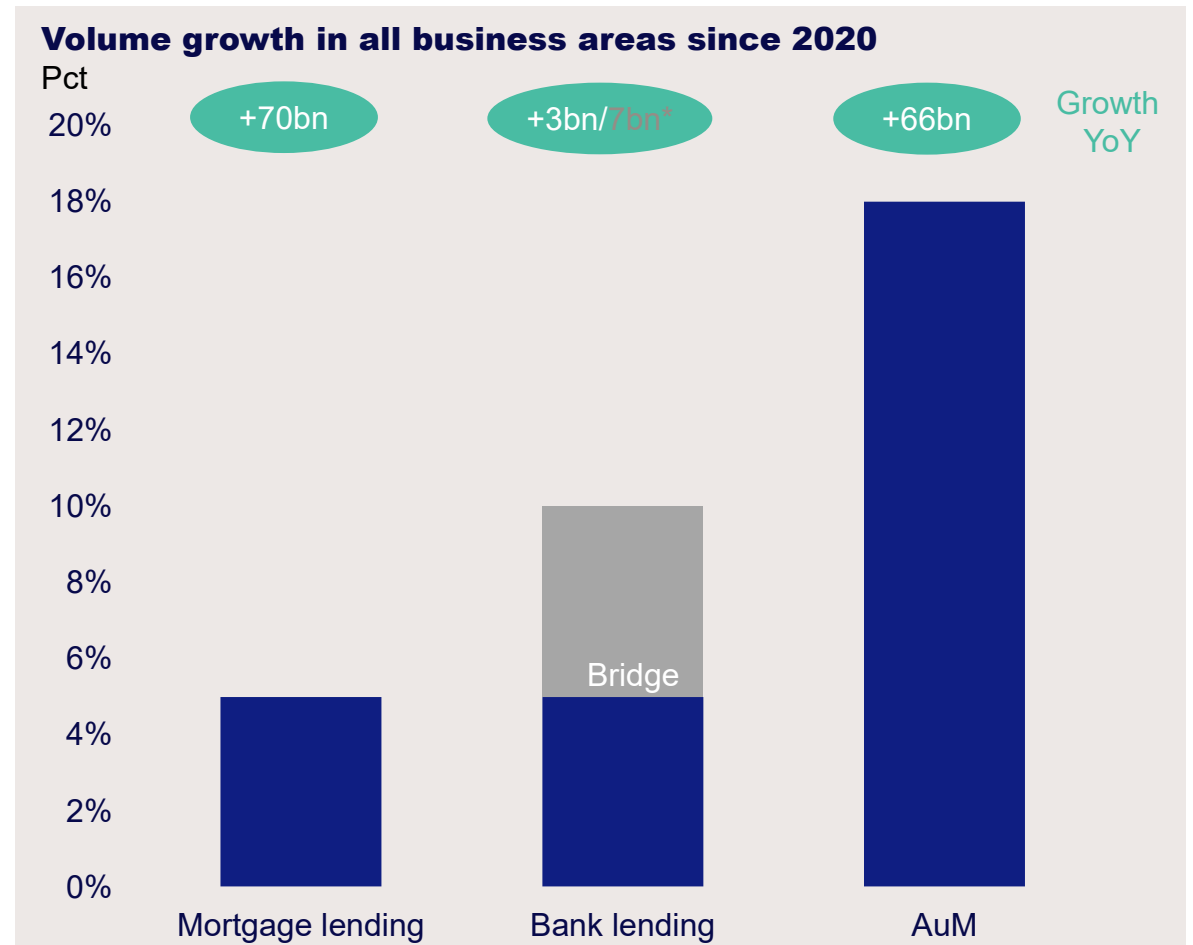
Profit before tax, DKKm



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 and positive value adjustments in Wealth Management
- Our customer benefits programmes help attract new business
 - We have launched new benefits in 2021
- We remain vigilant on credit standards

Well diversified business profit



*Excluding a single large bridge financing

Capital plan completed and credit quality remains strong

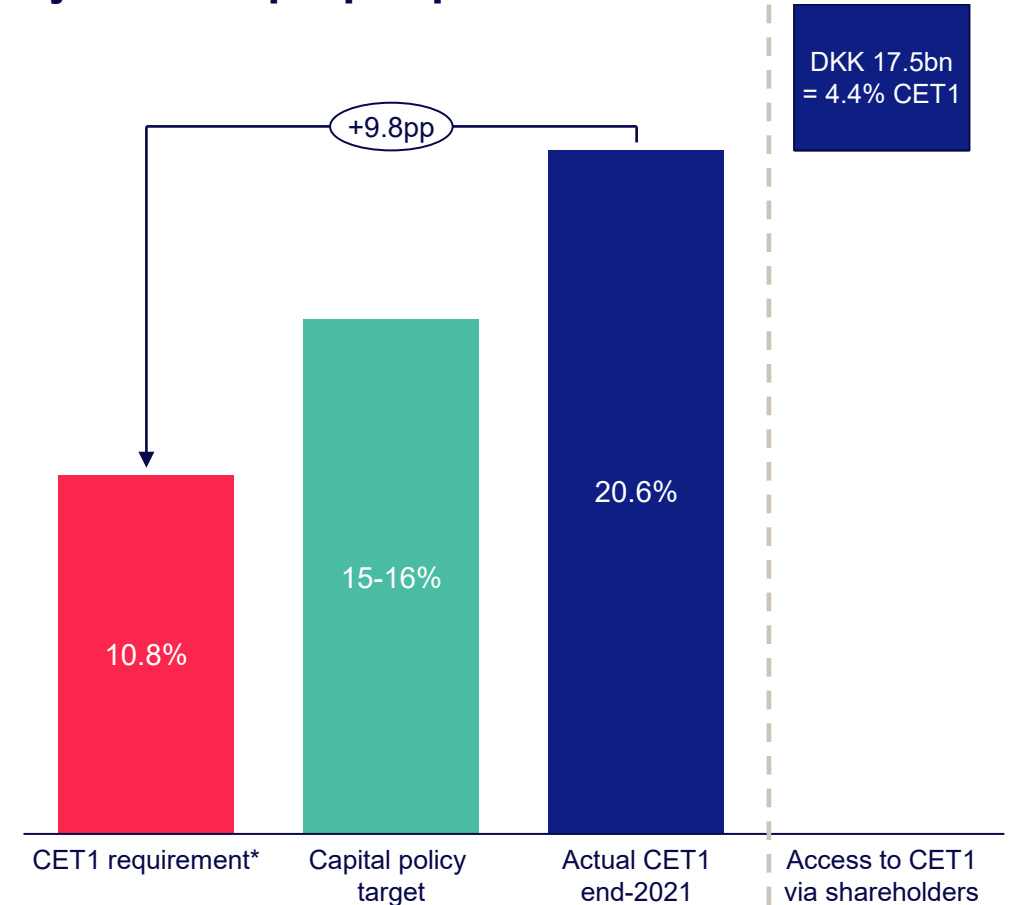
Capital

- Capital targets reduced by 0.5% (to 15-16% CET1 in 2022) as per an agreement from 2017 with the Danish FSA to be in line with listed peers
 - Majority owner Forenet Kredit now holds a capital reserve of DKK 10bn
 - Pension funds owning 17% in aggregate have provided capital commitment of DKK 7.5bn
- Nykredit has a strong capitalisation with a CET1 ratio of 20.6%
- Proposed dividend of 50% of net profits in line with target pay-out ratio

Credit quality

- Arrears remain very low and our DKK 2.1bn reservation for covid-related loan losses remains intact
- The macro economic conditions for the vast majority of our customers have been and remain very benign

Nykredit Group capital position

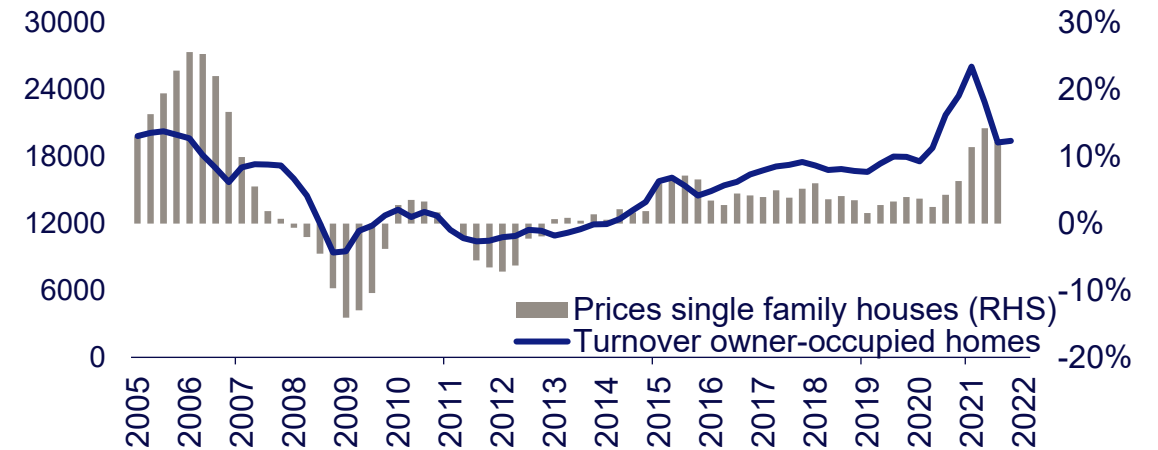


*: The CET1 requirement will increase correspondingly with the step-wise increase of the countercyclical buffer rate to 1% from 30 September 2022 and 2% from end-2022.

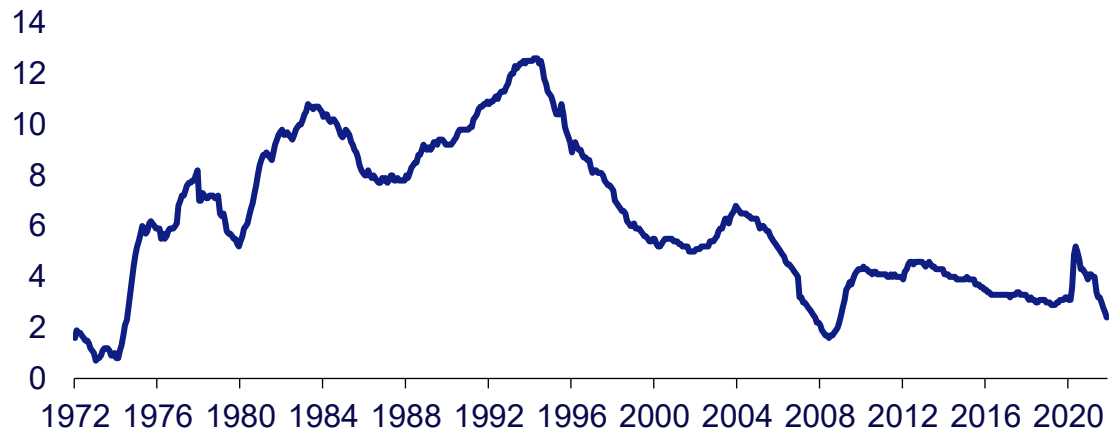
The strongest housing market in a decade

- Denmark has seen a strong housing market with record high turnover
- In the second half of 2021, property sales and prices have increased more moderately than in the previous year, which we expect to continue
- Few homes listed for sale and strong fundamentals – affordability remains very favourable but there may be sub-markets that are heating up
- We see no increase in deviations from the FSA's best practice underwriting guidelines

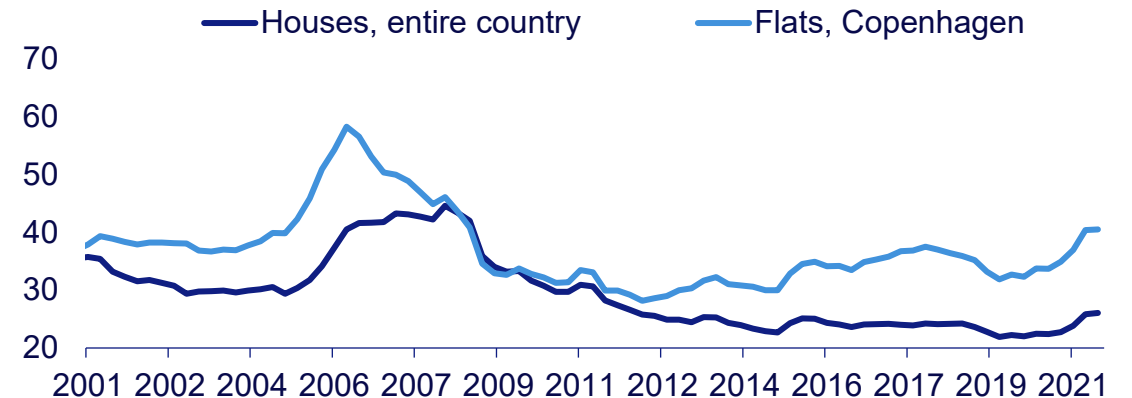
No. of home sales per quarter* and YoY price development



Unemployment rate (FTE, seasonally adjusted), %



Housing burden, % of disposable income

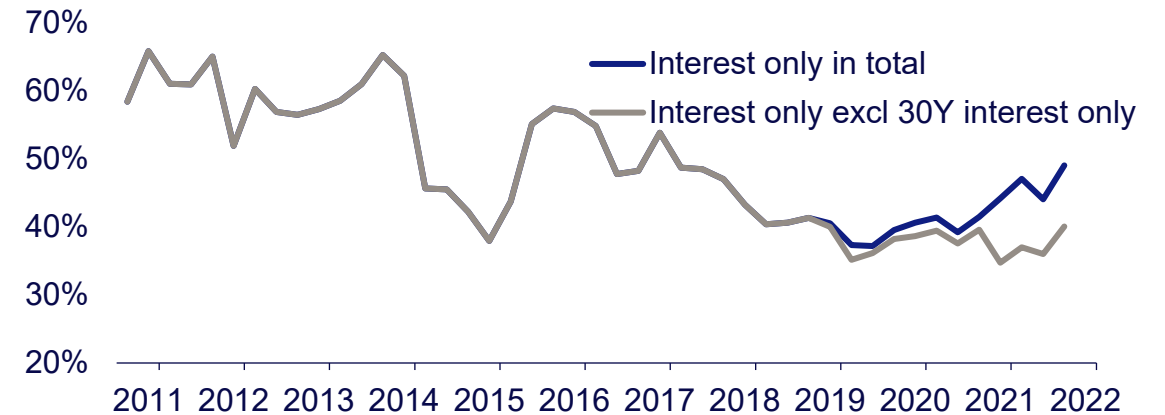


Source: Macrobond, Statistics Denmark, boligsiden.dk and Nykredit. * Seasonally adjusted.

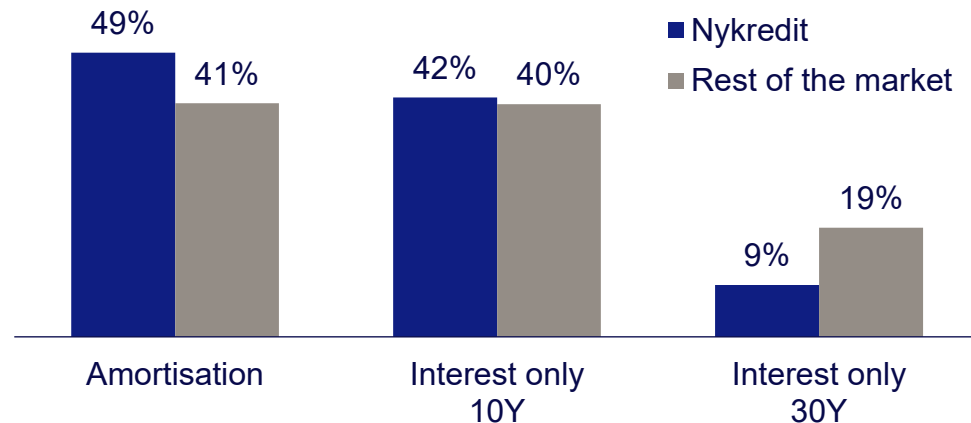
Homeowners still prefer fixed-rate and amortisation

- Fixed-rate loans with amortisation has gained popularity for several years
- In 2021, however, the share of new lending being interest only has increased in Totalkredit due to the demand for fixed-rate 30Y interest only
- As intended the 30Y interest only loans in Totalkredit are being used by homeowners from the mid-50s and older with large savings and low LTVs
- Nykredit and Totalkredit are well protected via credit risk sharing model with partner banks

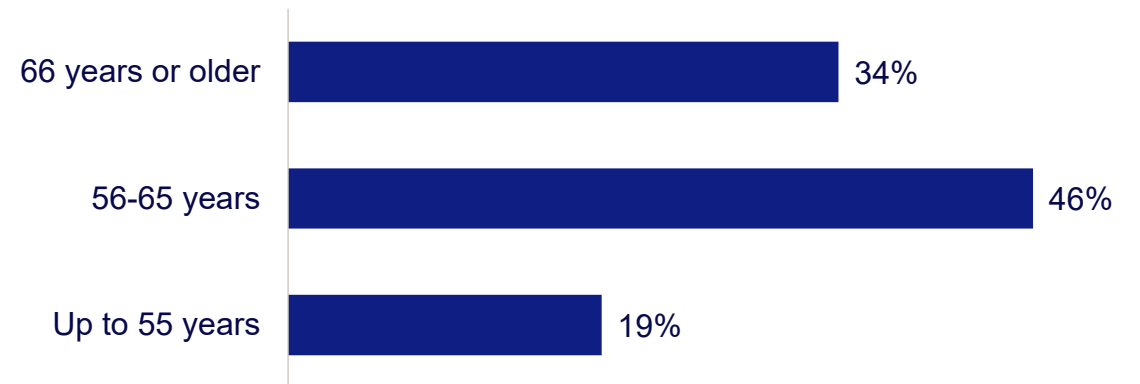
Share of new lending with interest only, % in Totalkredit



Share of issued fixed-rate 2053 series mortgage bonds



Age distribution on 30Y interest only borrower in Totalkredit



Source: Nykredit

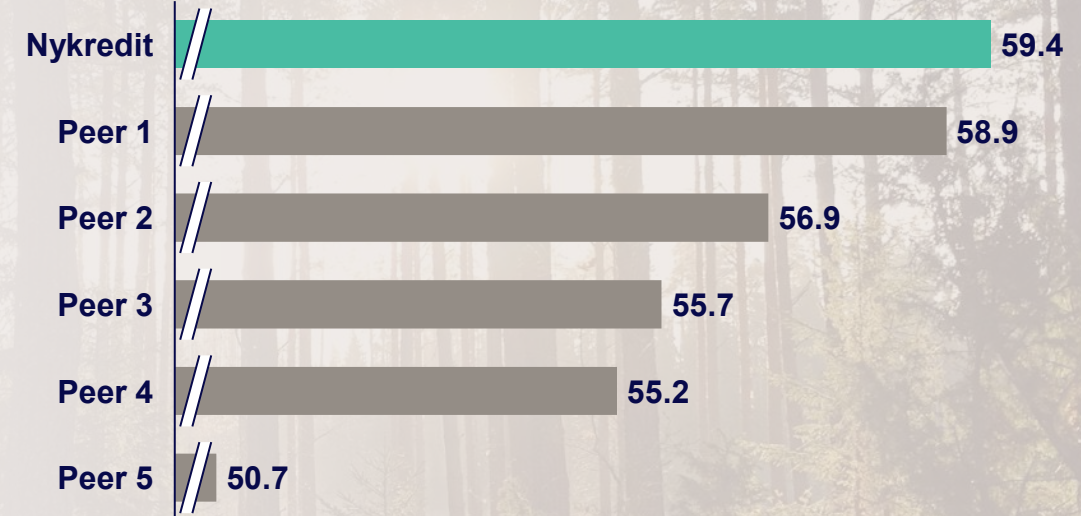
High demand for Nykredit's green offerings

Green initiatives

- In 2021 we financed our customers' green transition initiatives and launched specific initiatives
- 50%+ of cars financed by Nykredit are electric or plug-in hybrid
A share significantly above the general market level
- 1,500 energy renovation initiatives was financed by Green home loan (Grønt BoligLån)
- Mortgage lending funded by green covered bonds more than doubled over the past year and has now reached DKK 22bn
- New tools for farmers and SMEs to improve quality of sustainability data - and a climate training and education programme for farmers
- We increased the coverage ratio in our carbon emissions statement on our lending and investment activities
- Emissions from our operations has been reduced by 84% since 2014
- We have set a net zero emissions target for our investments by 2050

Nykredit is rated the most sustainable bank among peers

Sustainability index, retail clients
EPSI-survey, September 2021



We make green choices easier and more cost effective for our customers

Selected green initiatives at Nykredit



Sustainable housing

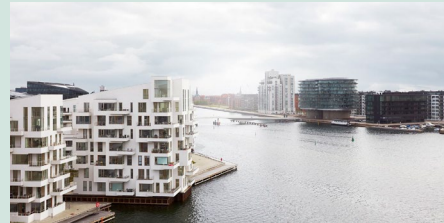
Totalkredit's energy calculator

Green home check-up
(Grønt boligTjek)

Green home loan
(Grønt BoligLån)

Green car loan

Initiative to replace oil-fired
boilers



Sustainable businesses and buildings

Green mortgage loans funded by
green covered bonds

Green construction loans to
finance new building and energy
renovation
(green contribution for public
housing)

ESG Advisory

ESG-tool for SMEs to improve
sustainability data



Sustainable agriculture

Green machinery leasing

Exemption from fees on
withdrawal of land from
agricultural use

Digital climate tool and training
for farmers

Partnership with SEGES and
Forenet Kredit



Sustainable investments

Funds carrying the Nordic Swan
EcoLabel
(no trading commission thanks
to green contribution)

Summary

Strong results and volume growth

- Very satisfactory business profit of DKK 10.3bn as NII and NFI are up 1% and Wealth Management Income is up 19% compared to last year
- ROAC of 13.4% and ROE of 9.9%
- Volume growth driven by household mortgage lending, bank lending to business customers and inflow of new funds in Wealth Management

Credit quality and covid-19

- Credit quality remains strong reflected by write-backs of impairments amounting to DKK 115m
- Reservation of DKK 2.1bn for covid related loan losses remains intact

ESG and green initiatives

- Nykredit is being recognized by the customers for our green products and initiatives
- We honour our commitment to support development nationwide with increased lending in all but 1 Danish municipalities
- Nykredit's strong ESG credentials reflected in MSCI "AA" rating and "Low Risk" score from Sustainalytics

Guidance for 2022

- Guidance for business profit and profit before tax for 2022 of DKK 7.5 – 8.5bn



Financial performance, credit and funding

CFO David Hellemann

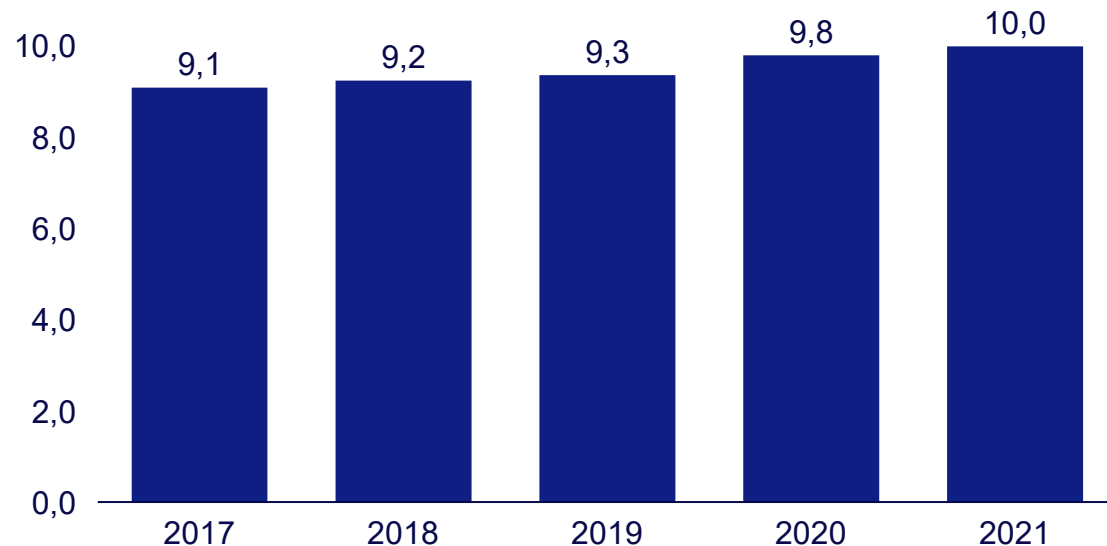
Group income statement – 2021 vs 2020

DKKm	2020	2021	Change	
Net Interest Income	9,780	9,978	2%	Driven higher mainly by volume growth
Net Fee Income	2,438	2,406	-1%	Decreased mainly due to lower funding income, whereas fee income from mortgage lending and banking remains high
Wealth Management Income	1,950	2,324	19%	Increased due to fund inflow and positive value adjustments
Customer benefits & capitalisation costs	-624	-897	44%	Driven higher by larger volumes of bail-inable debt and technical timing of customer benefits payments
Trading and Investment portfolio	1,026	2,718	165%	Driven up by a positive market development and gains on Danish bank shares etc.
Costs	5,773	6,349	10%	Up due to one-off IT write-off in Q4, higher contributions to the resolution fund, performance bonus and higher IT and compliance costs
Impairment charges	2,272	-115		2020 reservation for covid-19 of DKK 2.1bn remains intact. Underlying credit quality remains strong
Business profit	6,524	10,295	58%	
Legacy derivatives	258	432	68%	Positive value adjustment driven by higher interest rates
Profit before tax	6,780	10,727	58%	Best result in Nykredit's history

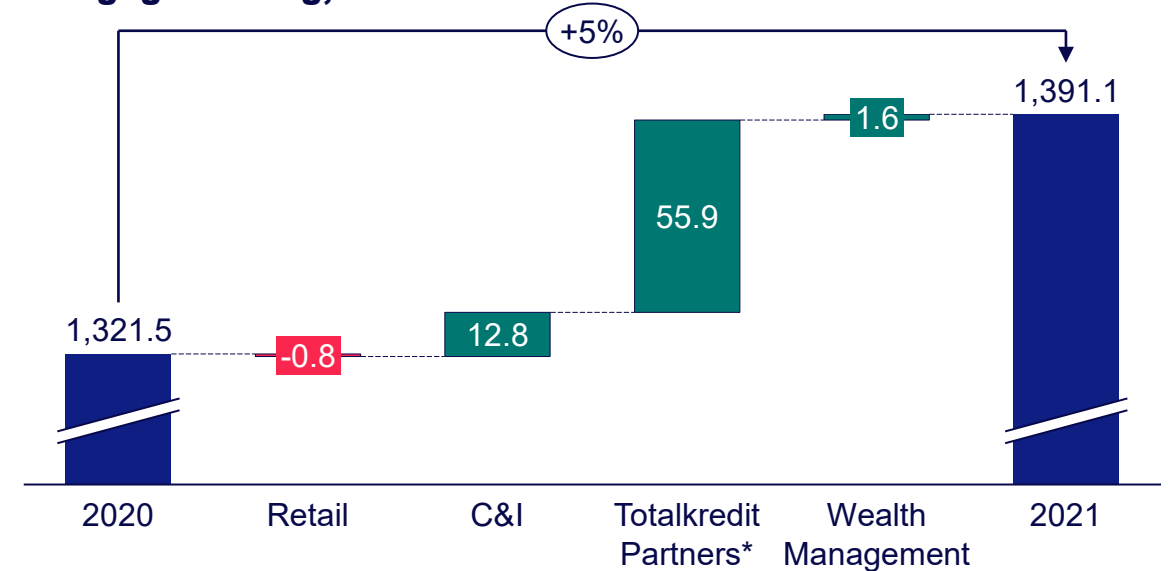
Net Interest Income up 2% driven by volume growth

- We see consistent growth in NII driven mainly by higher loan volumes in mortgage and bank lending
- Average margins on mortgages remain under pressure due to shift in product mix
- Downward pressure on bank margins due to improved credit quality of the customers
- Positive impact on NII from adjustment in deposit rates

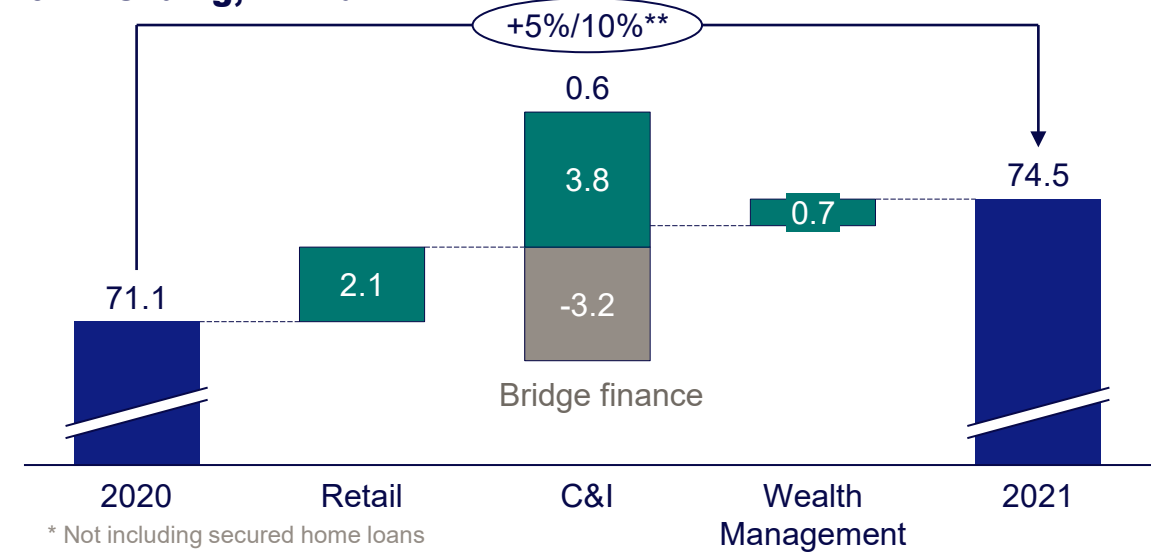
NII, DKKbn



Mortgage lending, DKKbn



Bank lending, DKKbn



* Not including secured home loans

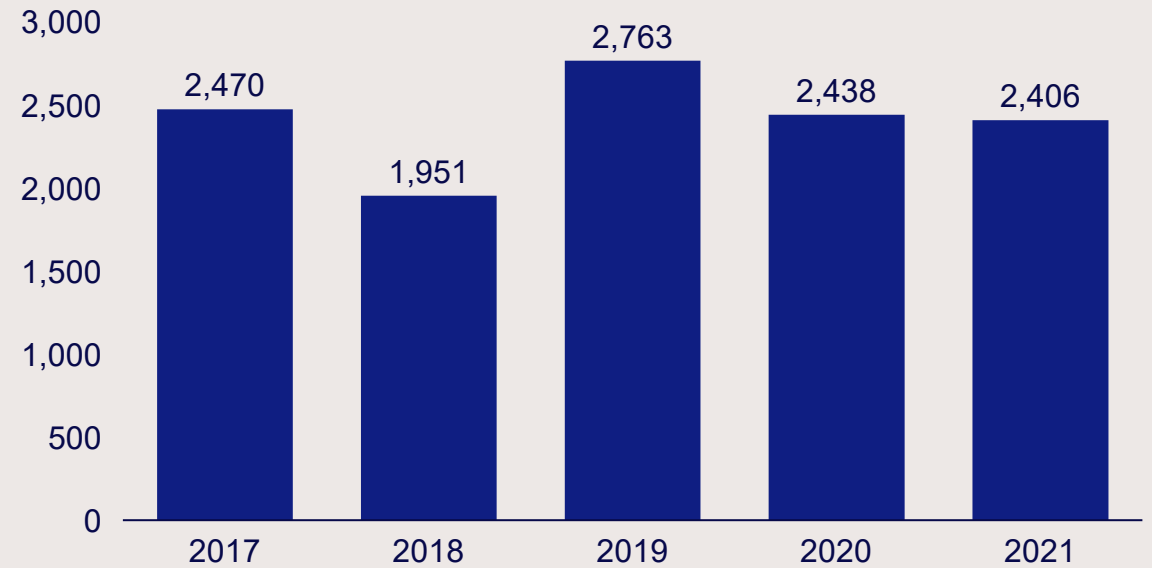
**Excluding a single large bridge financing

Net fee income broadly flat

Less re-mortgaging activity off-set by growth elsewhere

- The high turnover in the property markets has kept fee income in the mortgage business in line with the elevated level in 2020
- Lower funding income off set by higher fees from our estate agencies
- Higher fee income from banking driven by increased trading activity and advisory fees
- Growth in fee income from insurance collaboration with partner banks and Codan

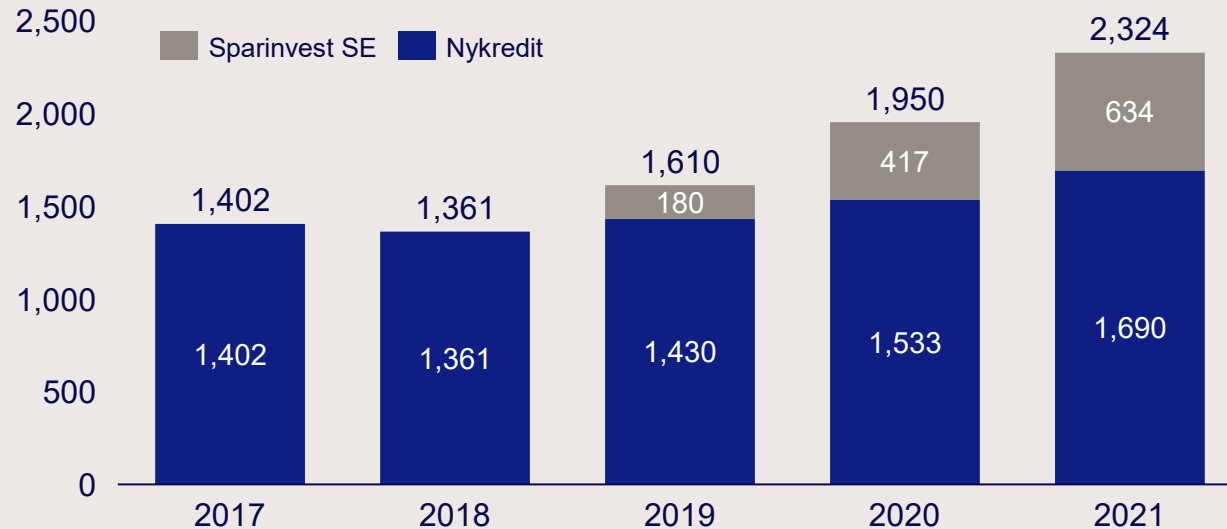
NFI, DKKm



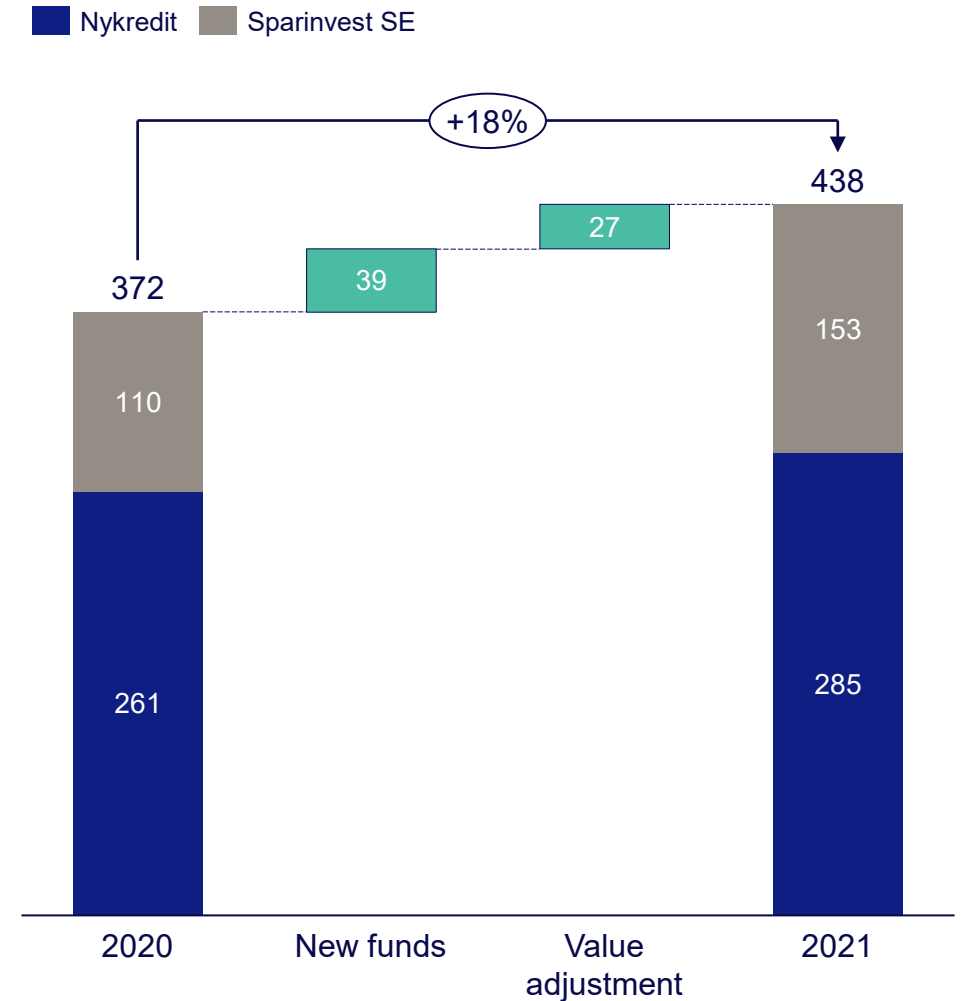
Wealth Management Income up 19%

- Income growth driven by larger volumes
- 18% growth in AuM since end-2020
- 59% of AuM-growth is due to inflow of new funds

Wealth Management Income, DKKm

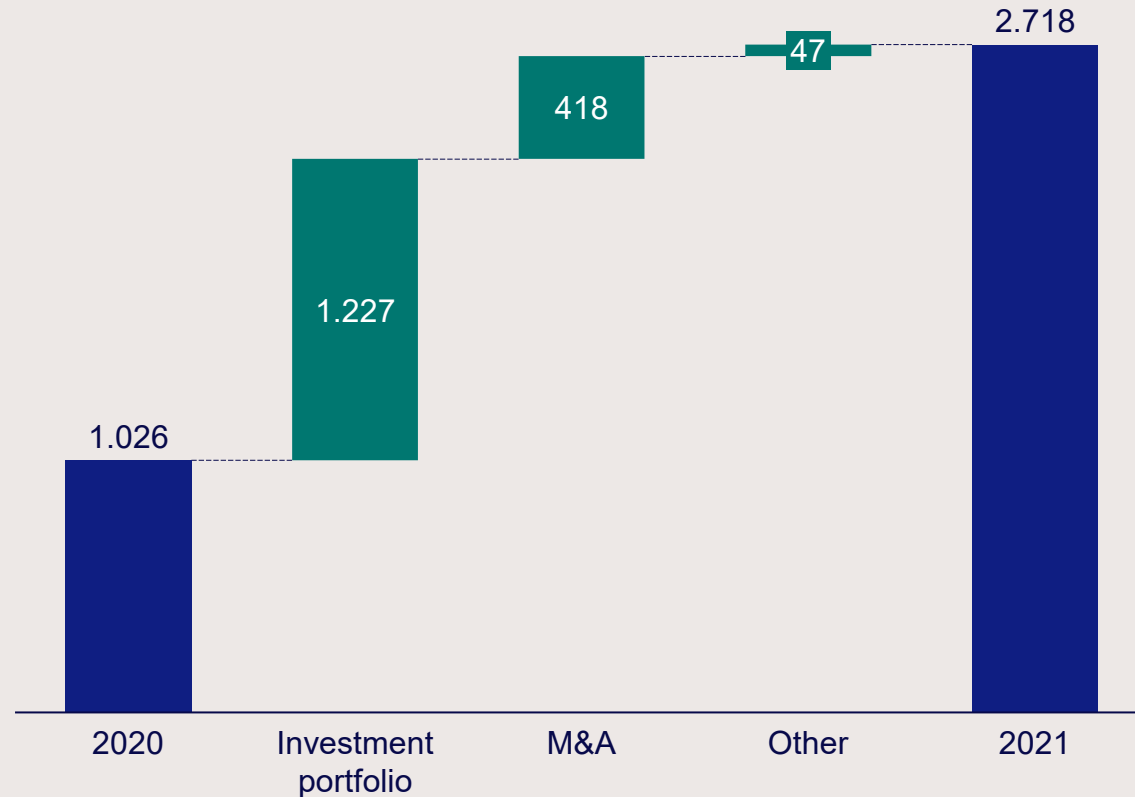


Assets under Management, DKKbn



Trading and investment portfolio income up due to a positive market trend

Trading and investment portfolio income, DKKm

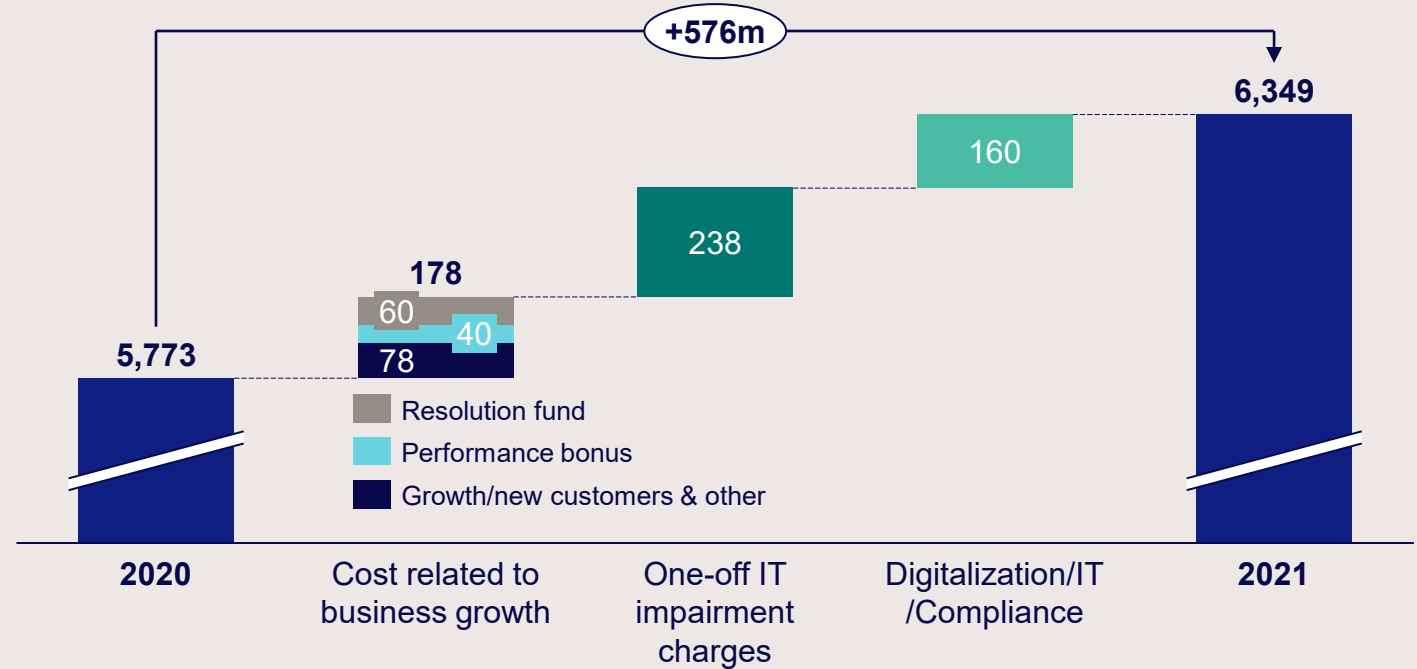


- Trading and investment portfolio income of DKK 2,718m in 2021
- Performance was driven by:
 - Higher valuations of strategic share holdings in Danish banks
 - Positive value adjustments on swaps due to higher interest rates
 - M&A activity with the sale of Depository Services and fair value adjustment in relation to LR Realkredit

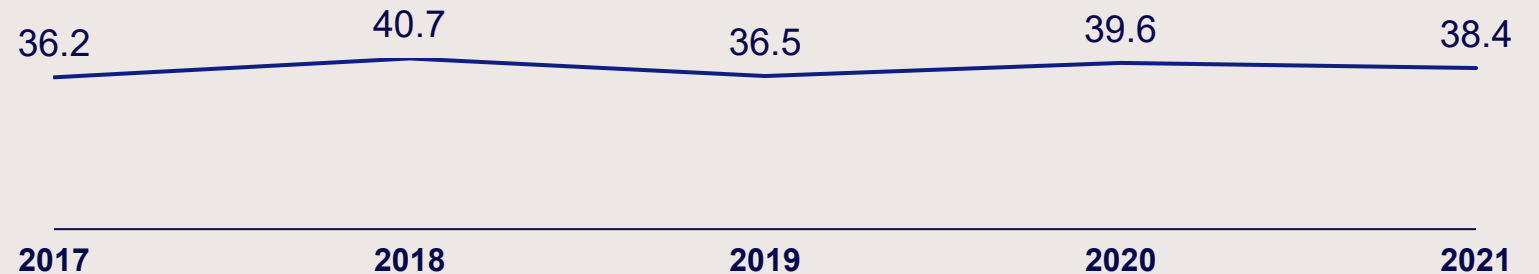
Cost development

- Costs are up DKK 576m compared to 2020
- The main driver was a one-off IT write-off of DKK 238m in Q4
- DKK 178m relates to growth in the business volume with investment in more advisors in selected business areas, higher contribution to the resolution fund and paid performance bonuses
- The increase was also driven by costs related to compliance, AML and IT/digitalization

Change in costs from 2020 to 2021, DKKm



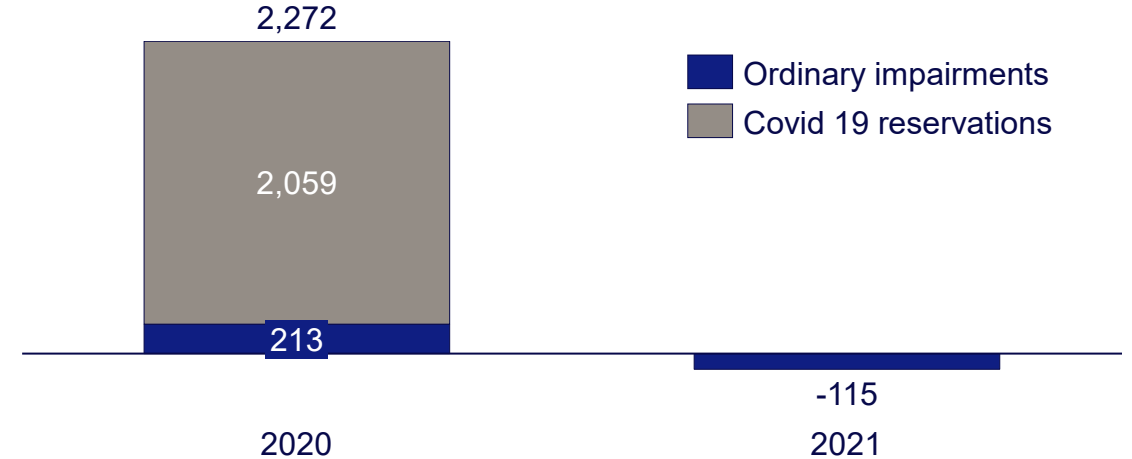
Cost:Income ratio, %



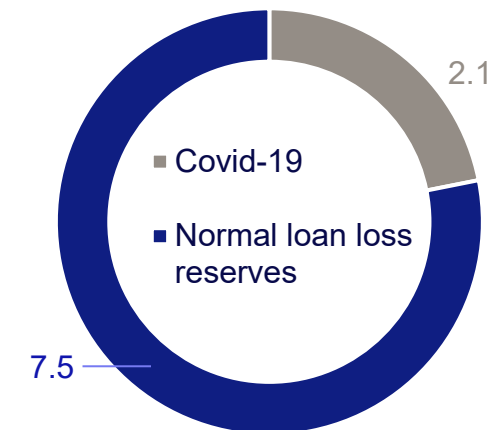
Low impairment charges due to good economic conditions

- Writeback of impairment charges due to good economic conditions, rising property prices and improved credit quality of both homeowners and businesses
- Provisions of DKK 2.1bn for potential losses from covid-19 remain intact
- There is still substantial uncertainty of the effects when government relief packages are gradually phased out
- Nykredit has focused on particularly vulnerable sectors and customers to ensure that any signs of weakness are captured and addressed in the credit process
- Nykredit's total loan loss reserves amount to DKK 9,6bn of which the covid-19 reservation amounts to DKK 2.1bn

Impairment provisions, DKKm



Nykredit Group total loan loss reserves, DKKbn

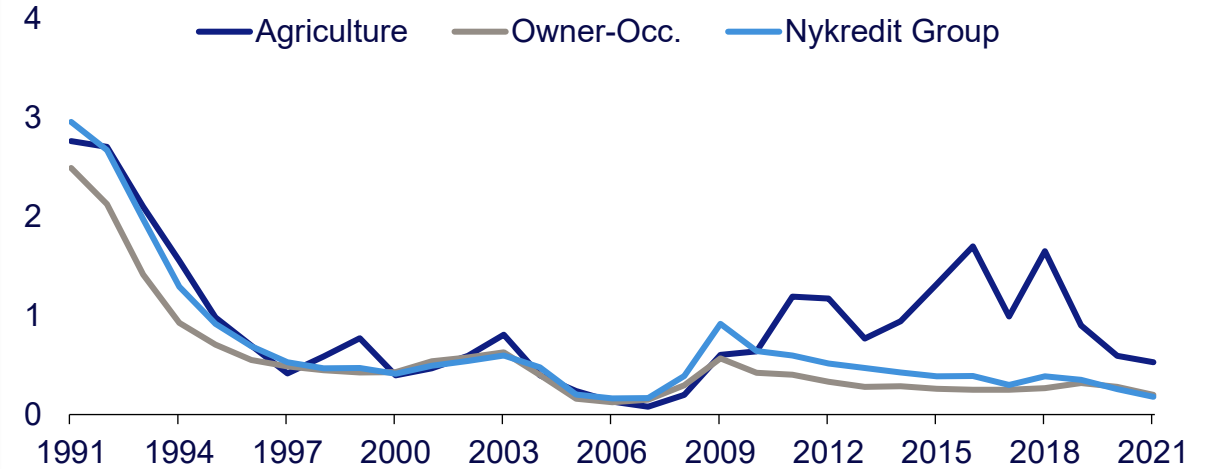


Credit quality remains strong

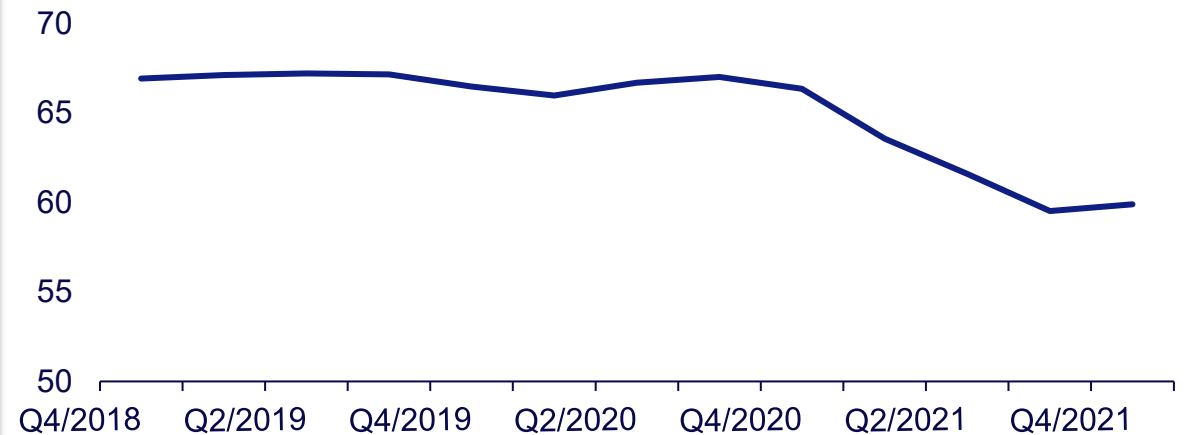
- Unemployment and property prices are key drivers of credit risk for Nykredit
 - The unemployment rate has declined to 2.4%
 - The housing market remains strong and the current deceleration in prices and turn-over are seen as positive developments
- Danish households are still very robust with large accumulated savings
- Some commercial customers in selected sectors are challenged, but debt servicing has been kept due to government support packages
- Average LTV of 60% for private residential properties, reflecting amortisation and higher property prices

Source: Nykredit company reports and Fact Book

75-day mortgage arrears to latest term, %



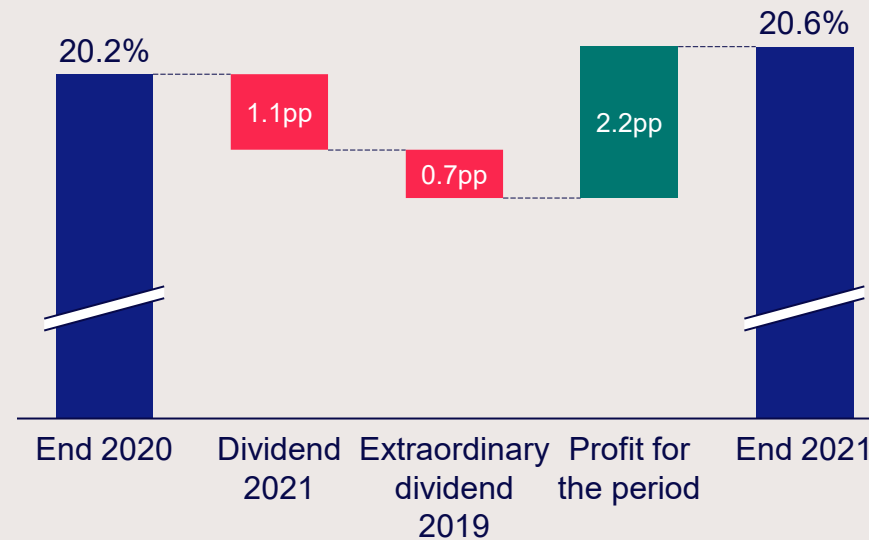
Average LTV, private residential properties, %



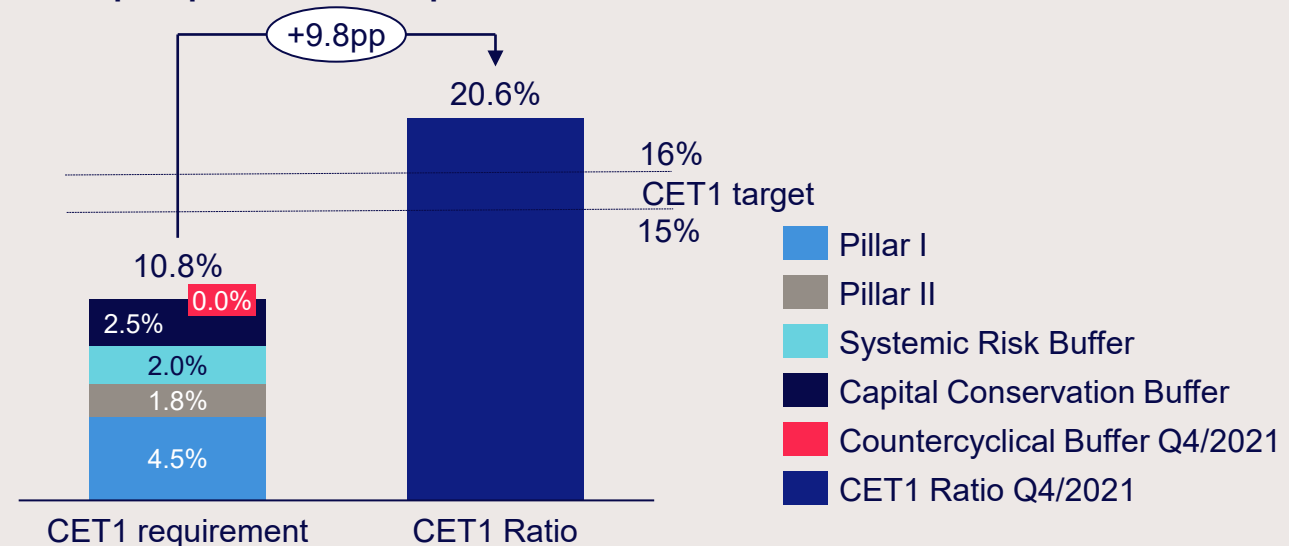
Strong capitalisation

- CET1 ratio of 20.6%, which is some 500bps above capital policy target
 - In November 2021, Nykredit paid out a dividend of DKK 2.6bn in relation to 2019
 - Proposed dividend of 50% of net profits for 2021
- The countercyclical buffer will be reactivated
 - 1% by end-September and 2% by end-December 2022
 - Potential use of a new Systemic Risk Buffer
- Nykredit has reserved capital for the future effect of Basel IV
 - The EU Commission has made a legislative proposal, which will now be subject to a political process in the European Parliament and Council

CET1 capital ratio



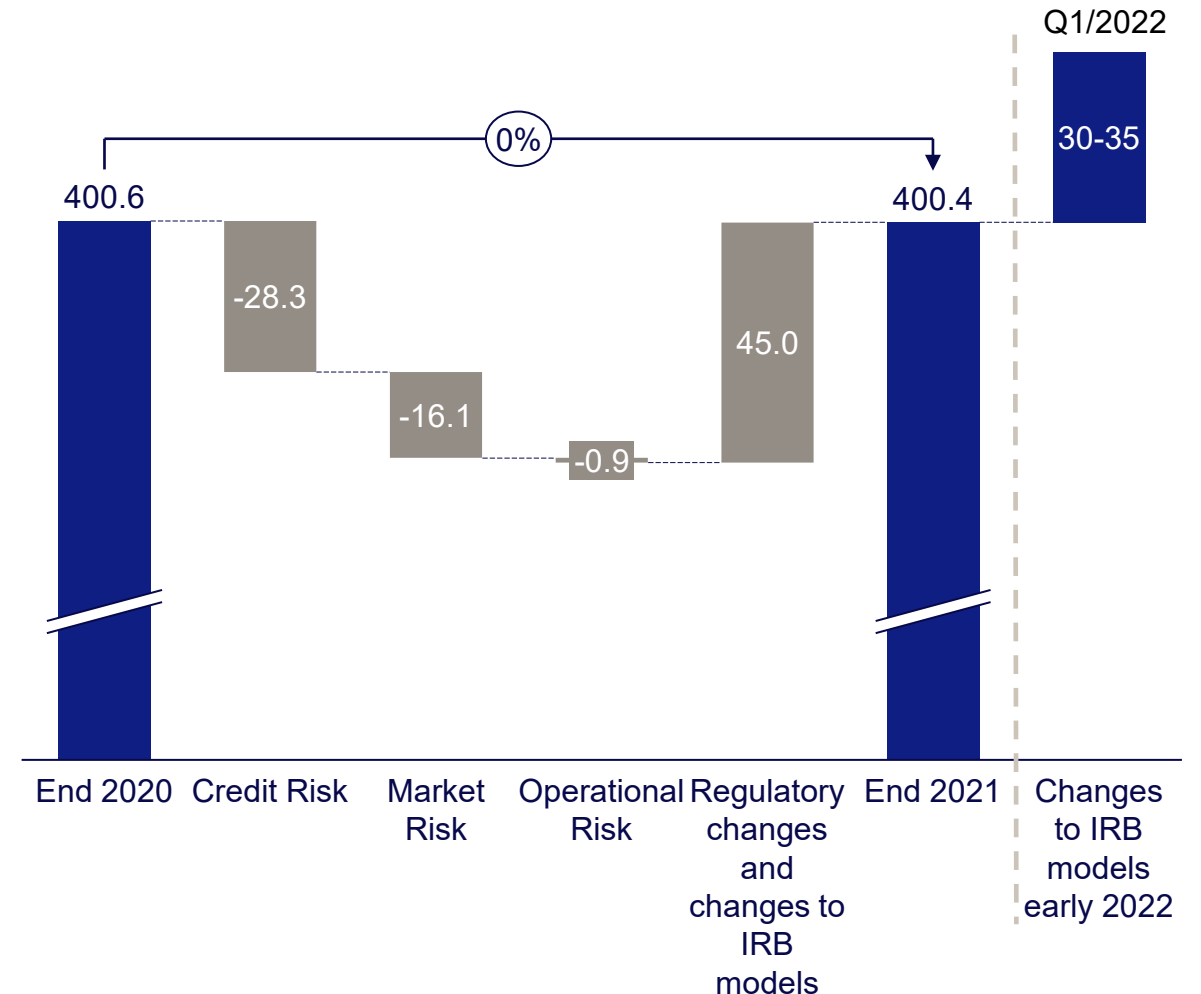
CET1 capital position and requirement



Upward pressure on REA from regulatory changes

- In 2021, the risk exposure amount (REA) was unchanged overall
- Credit risk has basically declined, while the REA impact of market turmoil in March 2020 was reversed during 2021
- New Definition of Default and the development of IRB models as well as revision of the Standardized Approach for counterparty risk added some DKK 45bn to REA in 2021
- Further regulatory changes to IRB models are expected to increase REA over time:
 - Including implementation of new guidelines for estimation of IRB models from the beginning of 2022 amounting to DKK 30-35bn
 - IRB changes are effectively reducing the effect of output floors under Basel IV

REA development, DKKbn



Funding needs driven by refinancing

Capital markets funding

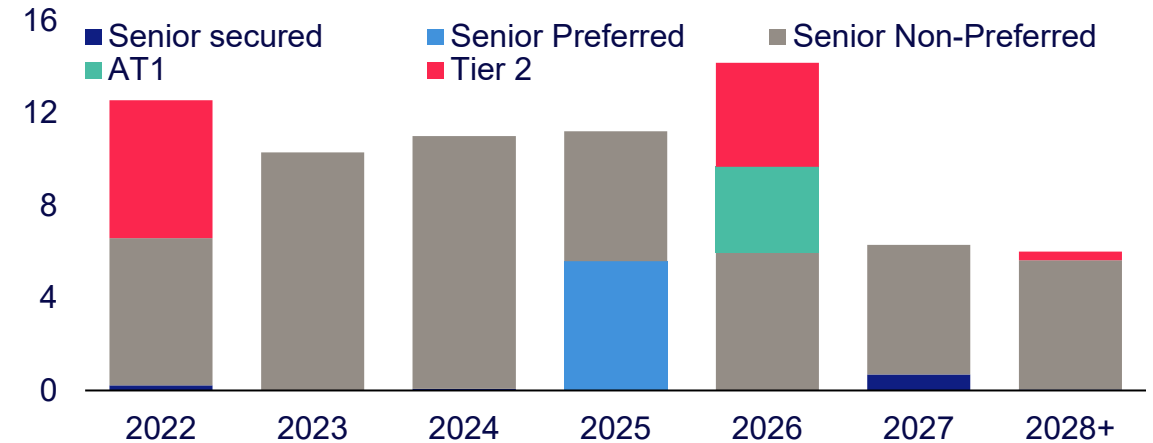
- The main driver of Nykredit's funding needs (excluding covered bonds) is the requirement to hold at least 8% of TLOF in bail-inable format
 - The 8% requirement is fulfilled and the amount of outstanding bail-inable instruments is expected to remain broadly stable
 - Issuance will be driven by refinancing and net new issuance will be driven by balance sheet growth
- Nykredit expects to issue DKK 15-20bn in bail-inable format in 2022
 - DKK 1.5bn has been issued as private placements in Q1/2022
- We are conducting the quarterly refinancing auctions of shorter dated covered bonds of approx. DKK 39bn in total this week

Deposits and LCR

- Nykredit has substantial liquidity reserves as illustrated by an Liquidity Coverage Ratio well above the regulatory requirement of 100%
- Nykredit Bank is running a deposit surplus which supports the bank's liquidity ratios

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

Nykredit Group maturity* profile, DKKbn



Nykredit's Liquidity Coverage Ratios, %

	2021	2020
Nykredit Group	591	756
Nykredit Realkredit/Totalkredit	2,305	5,064
Nykredit Bank	213	178

Summary and guidance

Result and Income from business

- Strong growth in lending and Wealth Management drives NII and Wealth Management Income up
- Positive market development drives income from Trading, investment portfolio and derivatives

Growth in business volumes

- We continue to see healthy inflow of new retail and commercial customers with good credit quality
- Satisfactory volume growth in especially retail mortgage lending, commercial bank lending and Wealth Management

Costs

- Inflow of new customers via organic growth drives costs higher
- Also increasing cost due to IT impairment charges in Q4, higher contributions to the resolution fund, performance bonus as well as higher compliance and IT costs

Impairments and covid-19

- Credit quality remains strong reflected in a net write back of impairment charges
- Reservation of DKK 2.1bn for covid-19 impact is intact as we have seen virtually no corona related loan losses

Capital

- Extraordinary dividends of DKK 2.6bn in relation to 2019-result paid out in November
- CET1 of 20.6% after 50% pay out of net profit

Guidance for 2022

- Guidance for business profit and result before tax for 2022 of DKK 7.5 – 8.5bn



Appendix

Q4/2020 vs. Q4/2021: Income is up 6% primary driven by wealth management income

Higher income and lower impairments

- Overall income up 6% from Q4/2020 to Q4/2021
 - NII increased 1% on volume growth
 - Net Fee Income increased 6% driven by activities in our bank and mortgage business
 - Wealth management income up 25% due to positive fund inflow and positive value adjustments
 - Trading and investment portfolio income increased by 19% due to positive market development
- Costs up 21% driven by one-off IT write-off and costs related to growth in business volume
- Impairment charges amounted to DKK -47m due to improved credit quality and rising property values
- Business profit of DKK 2,851m compared with DKK 2,554 in Q4/2020
- Legacy derivatives of DKK 79m compared with DKK 206m
- Profit before tax of DKK 2,421m compared with DKK 2,286m in Q4/2020

Business results Q4/2020 vs Q4/2021

DKKm	Q4/2020	Q4/2021	Index
Income	4,319	4,598	106
- Net interest Income	2,500	2,535	101
- Net fee income	632	669	106
- Wealth management income	504	629	125
- Net interest from capitalisation	-114	-122	107
- Net interest income fr. customer benefit programmes	-49	-120	242
- Trading, investment portfolio and other income	847	1,007	119
Costs	1,479	1,795	121
Business profit before impairment charges	2,841	2,804	99
Impairment charges	286	-47	
Business profit	2,554	2,851	112
Legacy derivatives	206	79	38
Profit before tax	2,760	2,930	106
Tax	474	509	107
Profit	2,286	2,421	106

Q3 vs. Q4: Income is up 19% due to higher NFI and trading and investment portfolio income

Higher NFI and trading and investment income

- Overall income up 19% Q/Q
 - NII increased 1% on volume growth
 - Net Fee Income 29% higher driven by funding income and higher activity in our bank and mortgage business
 - Wealth management income up 6%
 - Trading and investment portfolio income increased
- Costs up 15% due to driven by one-off IT write-off and costs related to growth in business volume
- Impairment charges amounted to DKK -47m due to improved credit quality and rising property values
- Business profit of DKK 2,804m compared with DKK 2,442 in Q3/2021
- Legacy derivatives recorded a gain of DKK 79m compared with 60m in Q3/2021
- Profit before tax of DKK 2,930m compared with DKK 2,502m in Q3/2021

Business results Q3/2021 vs Q4/2021

DKKm	Q3/2021	Q4/2021	Index
Income	3,850	4,599	119
- Net interest Income	2,504	2,535	101
- Net fee income	521	669	129
- Wealth management income	595	629	106
- Net interest from capitalisation	-116	-122	105
- Net interest income fr. customer benefit programmes	-120	-120	100
- Trading, investment portfolio and other income	466	1,007	216
Costs	1,566	1,795	115
Business profit before impairment charges	2,284	2,804	123
Impairment charges	-157	-47	30
Business profit	2,442	2,851	117
Legacy derivatives	60	79	131
Profit before tax	2,502	2,930	117
Tax	410	509	124
Profit	2,091	2,421	116

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