

# Nykredit Group

FY 2022 Earnings call

Numbers relate to Nykredit Group

# Agenda

1

## Highlights of 2022

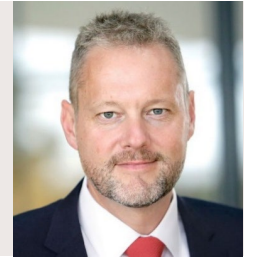
CEO Michael Rasmussen



2

## Financial performance, credit and funding plans

CFO David Hellemann



3

## Q&A

# Highlights of Nykredit in 2022

## A very satisfactory results for 2022



- Highest ever profit before tax
- Continued growth in core business areas
- Higher interest rates drives NII and NFI
- Credit quality remains strong with very low write-offs



## High activity and volume growth

- Extraordinary high activity in both our mortgage and banking business
- Continued growth in both mortgage and bank lending



## New financial targets 2023

- RoE target of 8% replaces 7.5% RoAC (corresponding to RoE 5.6%)
- The change primarily reflects higher interest rate environment
- Target for cost/income lowered to below 40% from 45%

# A very satisfactory results for 2022

## Exceeding our expectations

DKKm	2020	2021	2022
Core income <sup>1</sup>	14,167	14,709	<b>16,269</b>
Trading and investment income	1,026	2,718	<b>1,736</b>
Costs	5,773	6,349	<b>6,327</b>
Impairment charges <sup>2</sup>	2,272	-115	<b>-80</b>
Business profit	6,524	10,295	<b>10,576</b>
Profit before tax	6,780	10,727	<b>11,507</b>
Return on equity after tax, % p.a.	6.6%	9.9%	<b>10.2%</b>
RoAC after tax, % p.a.	8.6%	13.4%	<b>14.0%</b>
Cost/income ratio	39.6%	38.4%	<b>37.6%</b>

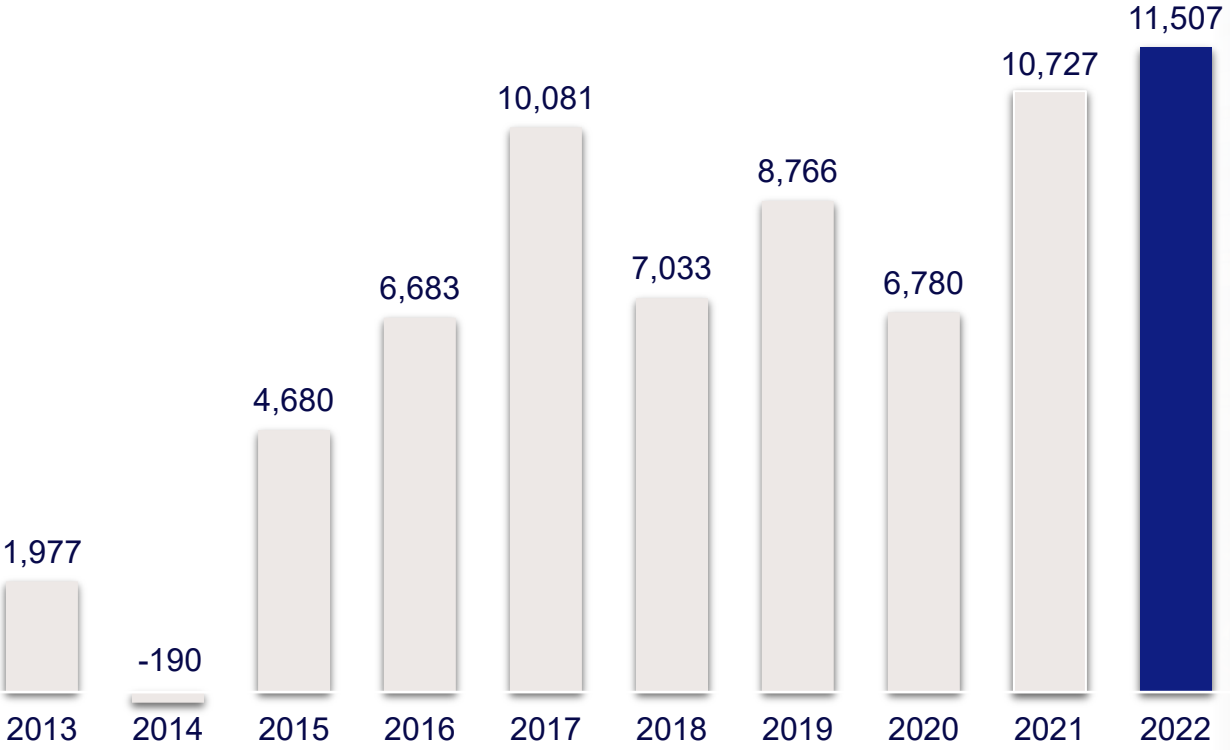
<sup>1</sup> NII, NFI and Wealth Management income

<sup>2</sup> A negative number indicates a gain



# All-time high results

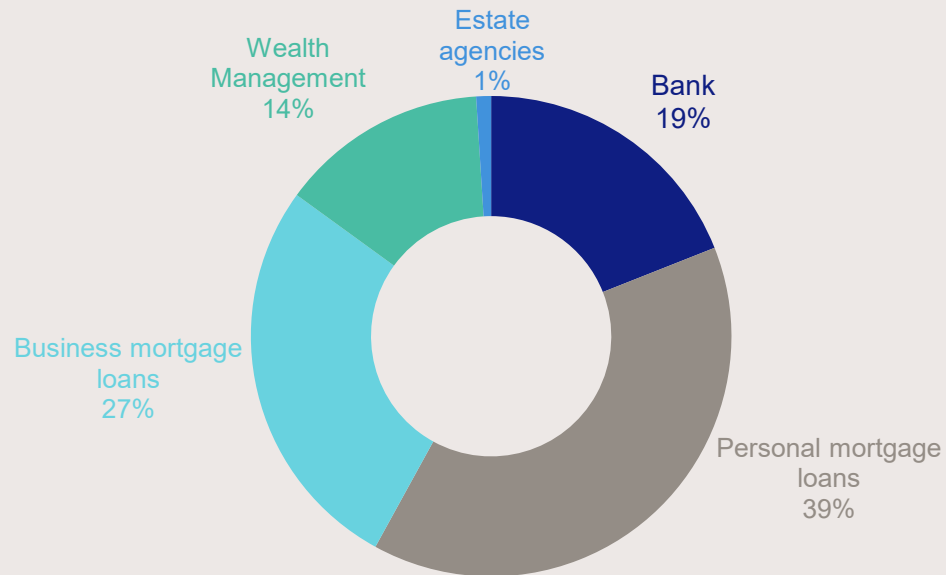
Profit before tax, DKKm



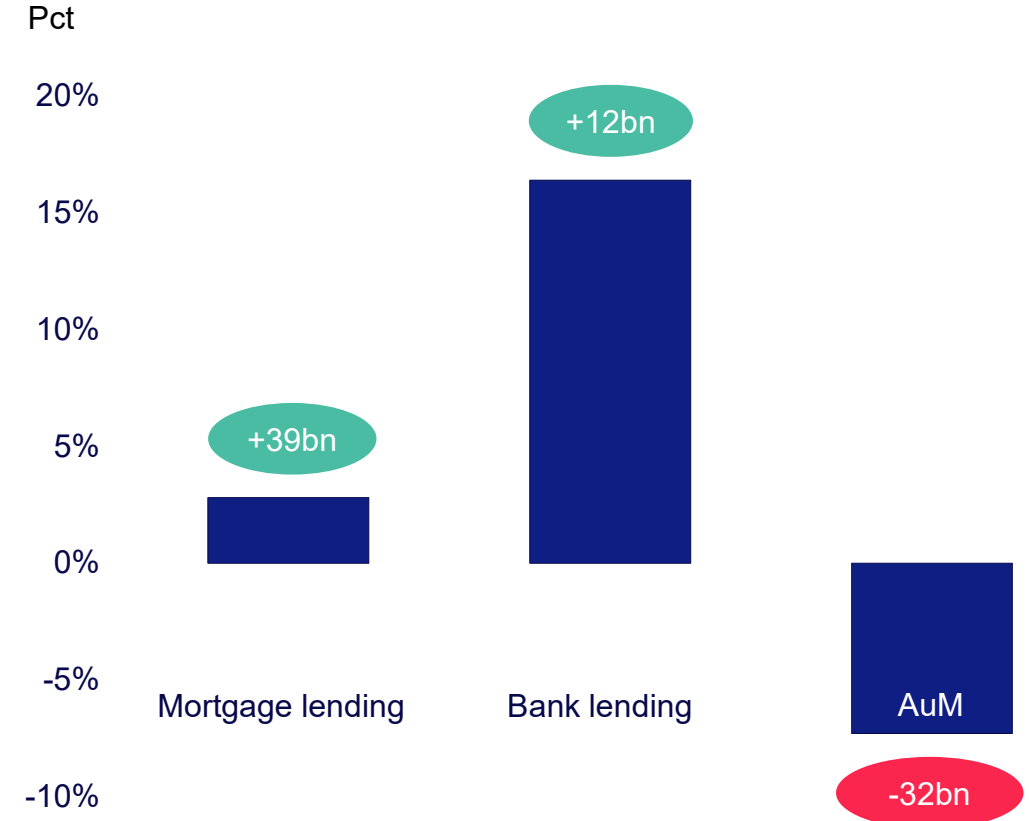
# Continued volume growth and customer inflow

- Strong business performance with volume growth driven by:
  - Households and Corporate & Institutions in mortgage lending
  - 16% growth in bank lending driven by commercial and retail customers
  - Organic growth in funds under management was offset by negative value adjustments in Wealth Management

## Core income is well diversified by products



## Volume growth in all business areas, DKKbn, 2021 vs. 2022



# Business lending is strong

Low exposure to vulnerable sectors



Increasing bank and mortgage lending to business customers

Growth remains driven by **high-rated customers of good credit quality**. Focus on the right type of growth



**The energy-intensive and agricultural sectors as well as the entertainment and service industries** are particularly exposed to the current development

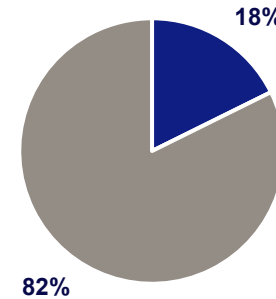


Nykredit accounts for a relatively **small share** of lending to exposed industries

## Nykredit's business mix by industry

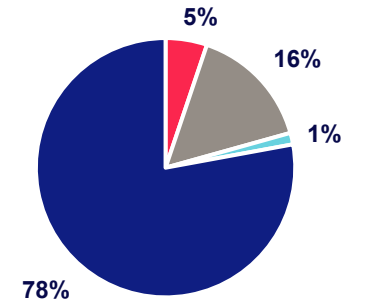
Total business lending

■ Bank lending ■ Mortgage lending



Total business lending by industry

■ Energy-intensive industries ■ Agriculture  
■ Services/entertainment ■ Other



## Average LTVs by business sectors

	2015	2022
Private rental	67%	<b>53%</b>
Office and retail	56%	<b>48%</b>
Industry and trades	49%	<b>45%</b>
Agriculture	58%	<b>56%</b>

# Danish homeowners are robust



LTV ratios for mortgage debt are **very low** driven by low market value of debt, high property prices and fairly high amortisation

Danish households **are robust** with large accumulated savings and unemployment remain low at 2.4%



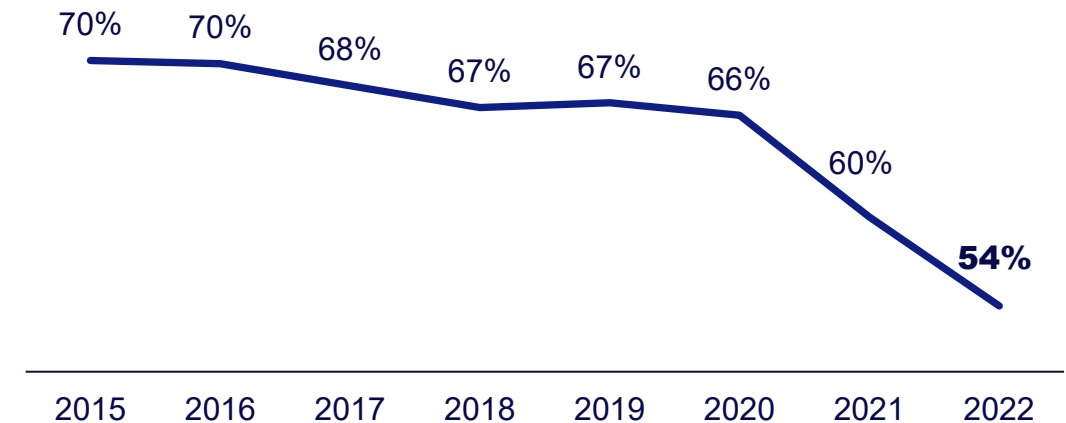
First-year mortgage loan costs have **more than doubled** since the beginning of 2022

First-time buyers challenged on affordability



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

**Average LTV for private residential properties**  
Nykredit Realkredit Group

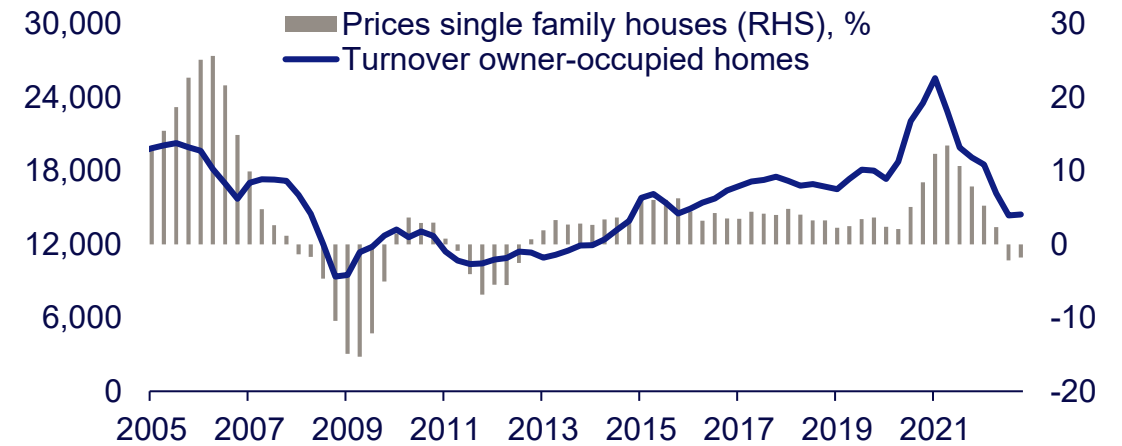




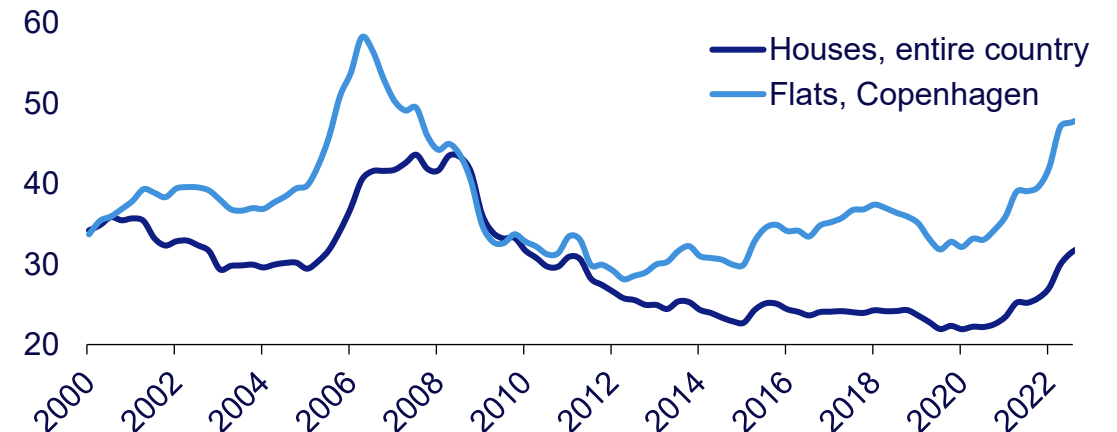
# Housing market is cooling down

- Downturn in the Danish housing market in the second half of 2022 driven by
  - Higher interest rates
  - Significantly higher inflation and energy costs
- Property sales have decreased from a record high in 2021 to pre-covid levels
- The decline in property prices is expected to continue
  - We have seen price declines of owner occupied-dwellings of 6 to 9% since the peak in Q2/2022
  - We believe we are halfway through the price decline
  - The largest price corrections are expected in the areas in and around Copenhagen
- Higher interest rates have made it considerably more expensive to buy a home, which is reflected in housing costs

## Home sales QoQ\* and prices YoY



## Housing costs, % of disposable income

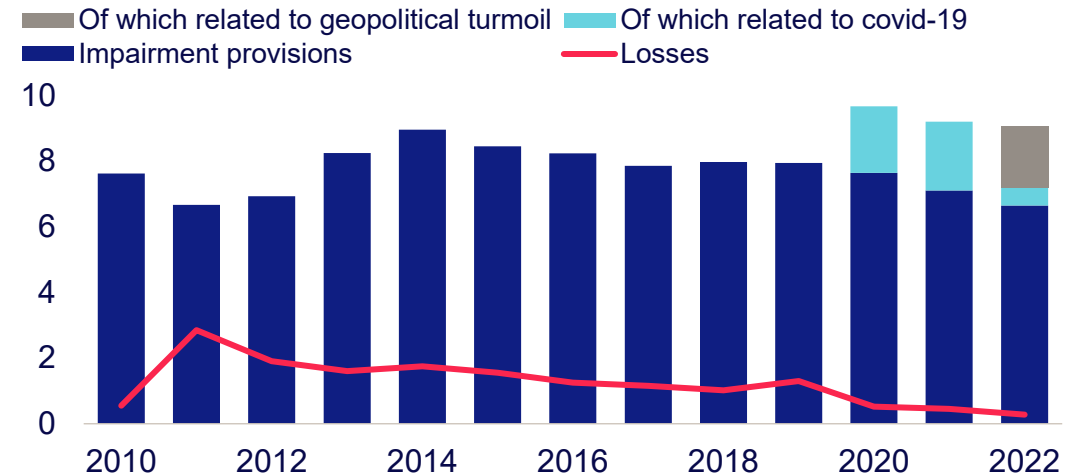


Source: Macrobond, Statistics Denmark, boligsiden.dk and Nykredit. \* Seasonally adjusted.

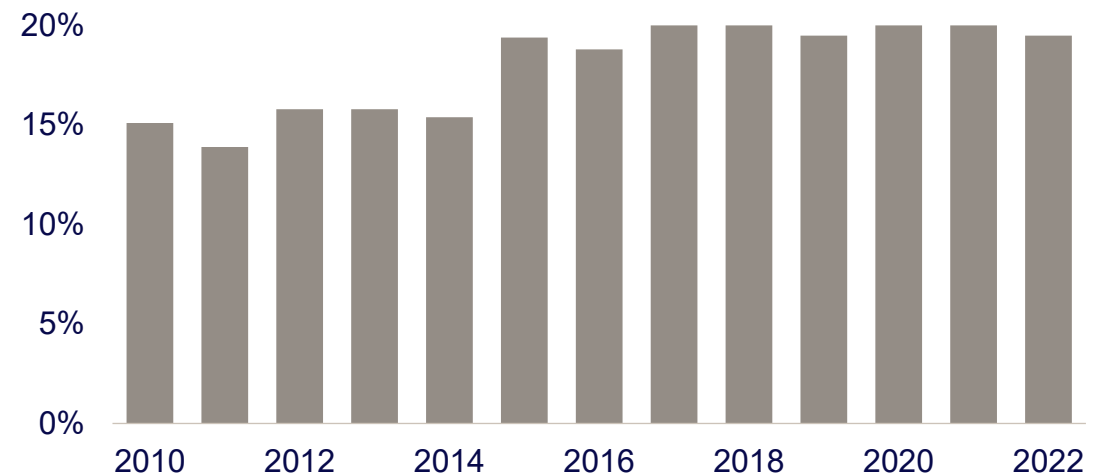
# Nykredit in a strong position to weather an economic downturn

- Nykredit has incurred virtually no losses in 2022
- Total loan reserves amounts to DKK 9.1bn equal to approx. 60bps of total lending
  - DKK 2.4bn reserved for covid-19 and geopolitical uncertainty remains intact
- The macroeconomic conditions for the vast majority of our customers remain benign
- Nykredit's capital position is resilient with a CET1 ratio of 19.5%
  - Stress tests support Nykredit's capital policy target that includes an incremental buffer of 400bps for hard macro stress on top of capital buffers

## Incurring losses and loan loss reserves, DKKbn



## Capital position is strong, CET1-%



# We have high ESG ambitions



As the first large bank and mortgage institution in Denmark, Nykredit has joined the **Science Based Target initiative (SBTi)**

In addition Nykredit joined the **Net Zero Banking Alliance (NZBA)**

... and set **new 2030 climate targets**

We make progress on green initiatives



- Loans to finance electric cars accounted for **47%** of total sales
- More than **4,000** customers have made energy renovations financed by green home loans
- 7,750** customers have received a DKK 10,000 voucher to replace oil-fired boilers



- Nykredit has issued **DKK 31bn** of green bonds for green buildings, renewable energy and energy distribution



New initiatives and targets set to increase workforce diversity

**26 weeks' parental leave** for mothers, fathers and co-parents

## New environmental and social sustainability targets



**75%** reduction of emission intensity in owner-occupied homes and residential properties by 2030 (baseline 2021)



**45 – 55%** reduction of emission intensity from agriculture in 2030 (baseline 2021)



**85%** reduction of emissions from our own operations by 2030 (baseline 2021)



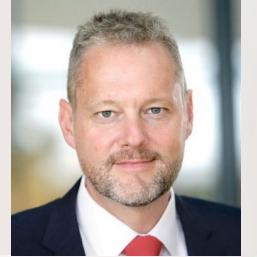
**60%** reduction of carbon intensity on investments by 2030 (baseline 2019). Climate-neutral investment portfolio by 2050



**45%** female managers in the Group by 2030, **50%** in the long term

# Financial performance, credit and funding

**CFO David Hellemann**



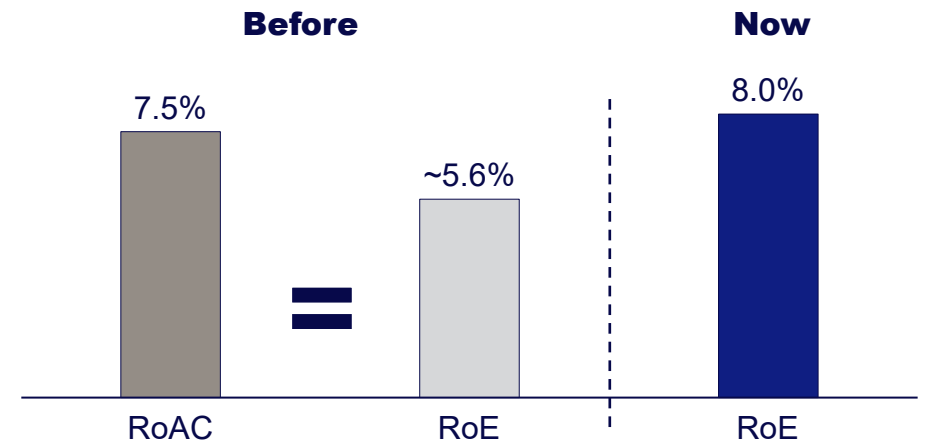
# Group income statement – 2022 vs 2021

DKKm	2021	2022	Change	
Net Interest Income	9,978	10,871	9%	Driven higher by increasing interest rates and volume growth in bank and mortgage lending
Net Fee Income	2,406	3,119	30%	Increased due to a extraordinarily high remortgaging activity
Wealth Management Income	2,324	2,279	-2%	Decreased due to negative value adjustments
Customer benefits & capitalisation costs	-897	-1,182	32%	Driven higher by larger volumes of bail-inable debt and increased funding costs
Trading and Investment portfolio	2,718	1,736	-36%	Down due to spread widening on Danish covered bonds and lower value adjustments on strategic bank shares
Costs	6,349	6,327	0%	Unchanged due to a one-off IT write-off which offsets the increasing costs of payroll, digitisation, IT, etc.
Impairment charges	-115	-80	-31%	Reversal of impairment charges in 2022, as underlying credit quality remains strong
<b>Business profit</b>	<b>10,295</b>	<b>10,576</b>	<b>3%</b>	
Legacy derivatives	432	931	116%	Positive value adjustment driven by higher interest rates
<b>Profit before tax</b>	<b>10,727</b>	<b>11,507</b>	<b>7%</b>	<b>All-time high in Nykredit</b>

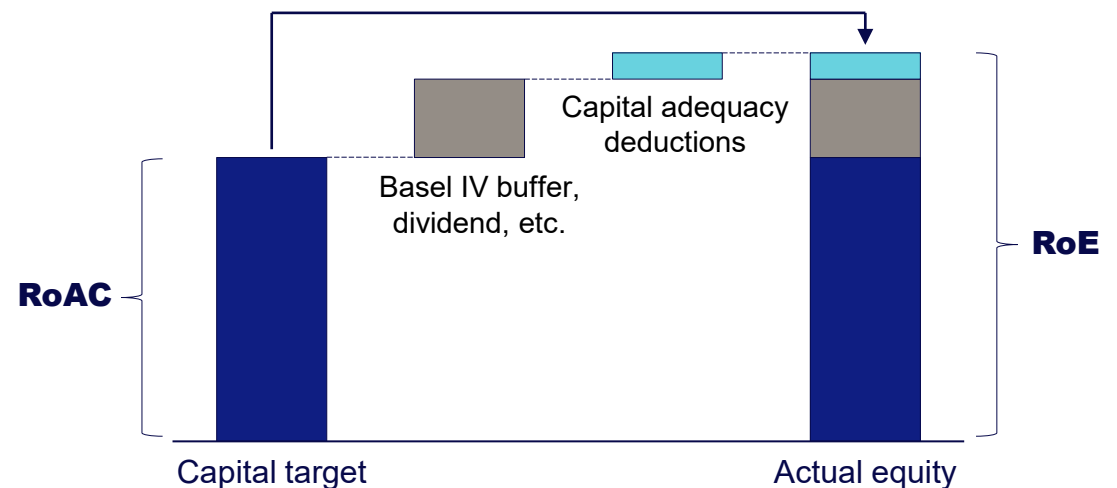
# Nykredit changes its target from 7.5% RoAC to 8% RoE

- Change in guidance from business profit before tax to profit after tax
- Guidance for 2023 is DKK 8.0 – 9.0bn profit after tax
- As of 2023 we will guide based on RoE rather than RoAC, and therefore profit after tax instead of business profit and profit before tax
  - New target for return on equity (RoE) set to 8.0% throughout the cycle
  - This replaces the previous target of a 7.5% return on allocated capital (RoAC) that was applied due to capital held for Basel IV
- Change in guidance is made to accommodate the expected impact of future Basel IV regulation which has been reduced following the implementation of new EBA guidelines
  - However, the expected capital requirements under Basel IV are unchanged
- The increase in our return target primarily reflects an upward interest rate environment
- Cost/income ratio target reduced to below 40% from 45%

## Return target up by ~2.5pp



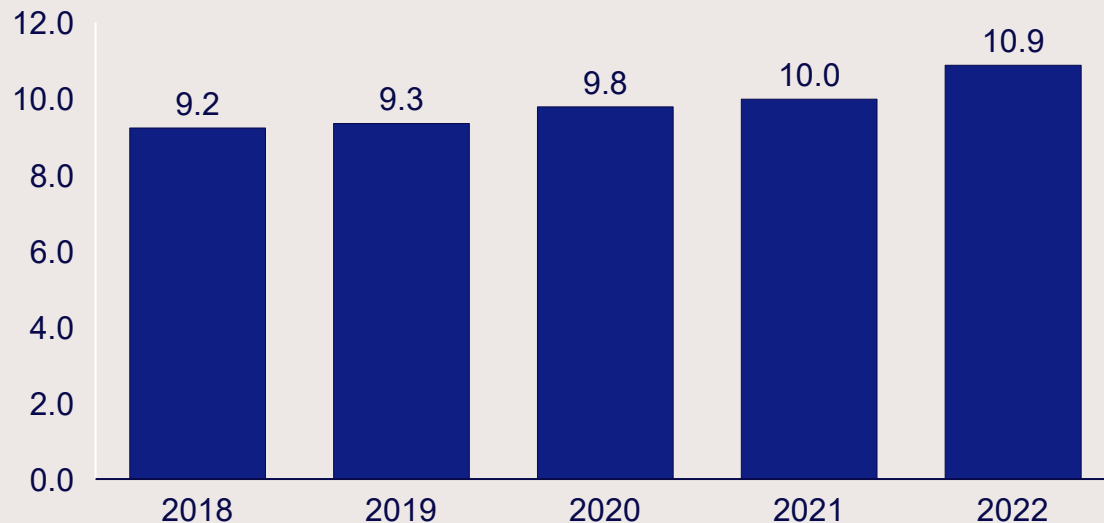
## Capital level underlying RoAC vs RoE



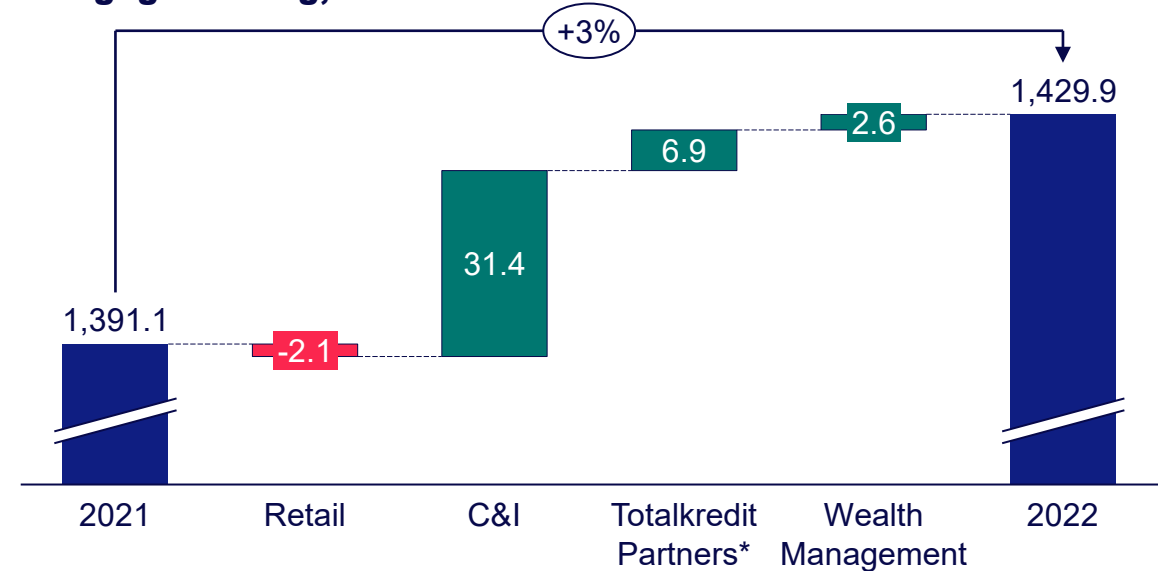
# Net Interest Income up 9% driven by volume growth and higher interest rates

- We see consistent growth in NII driven by higher loan volumes in mortgage and bank lending
- Positive impact on NII from higher interest rates
- Average margins on mortgages remain under pressure as higher interest rates reduce Nykredit's outstanding mortgage lending at fair value

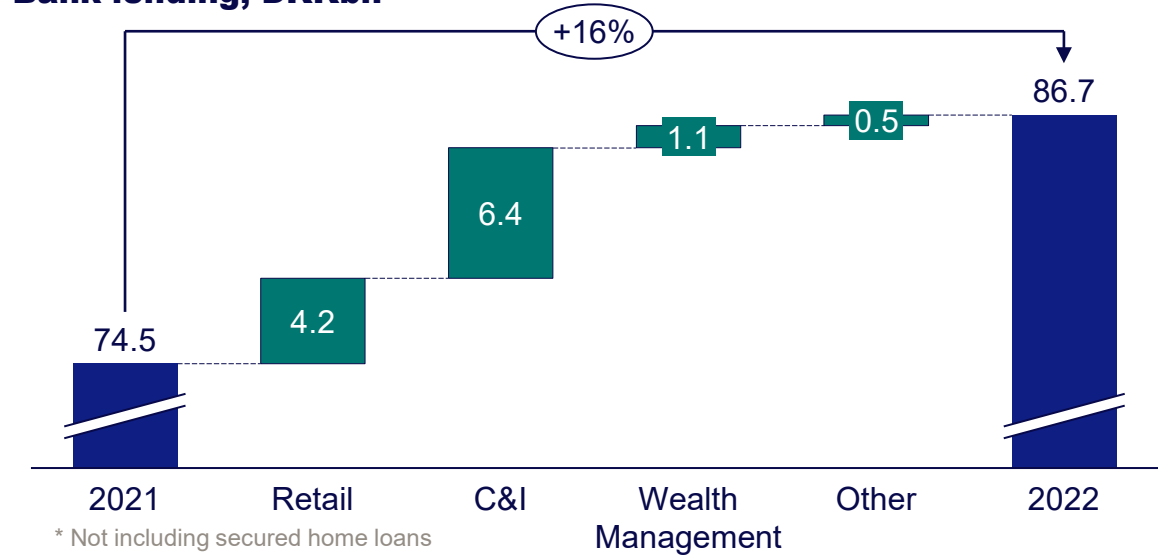
## NII, DKKbn



## Mortgage lending, DKKbn



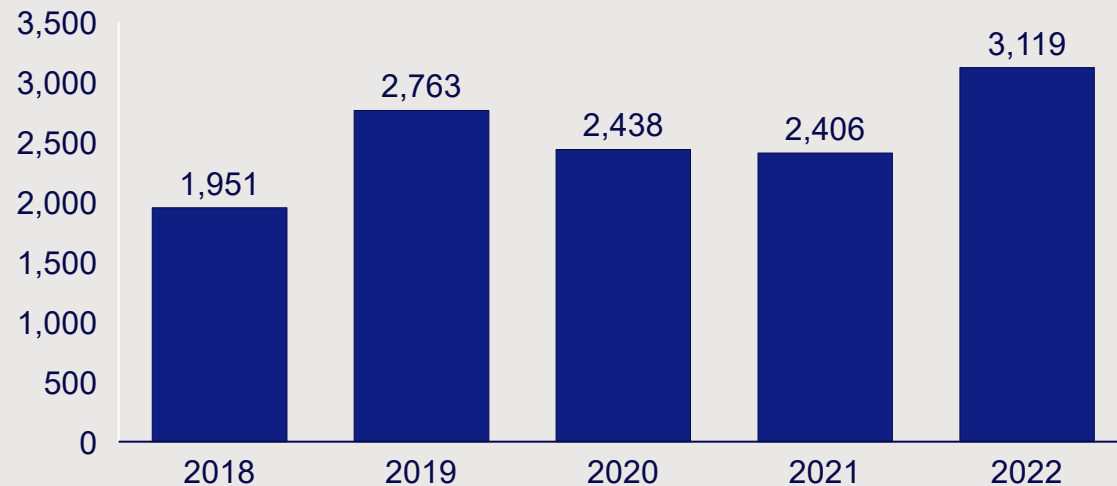
## Bank lending, DKKbn



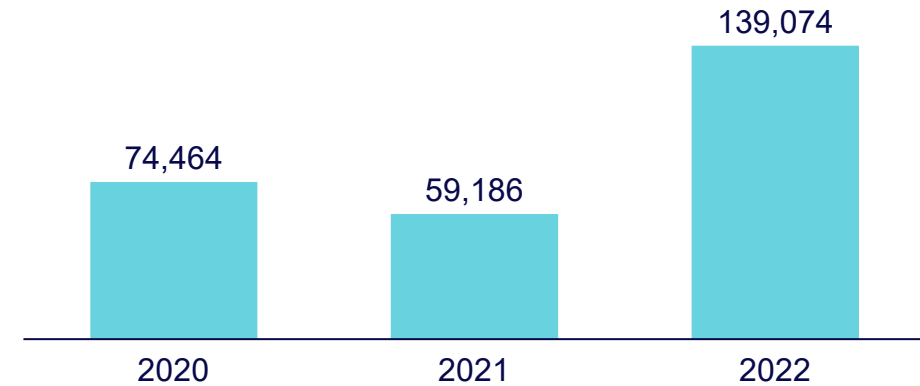
# Net fee income up 30% driven by remortgaging activity

■ A strong 2022 driven by a very high remortgaging activity

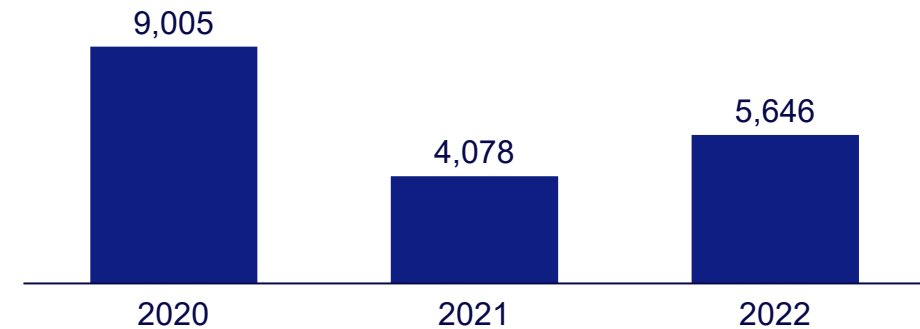
**Net Fee Income, DKKm**



**Remortgaging activity – no. of loans**  
**Retail customers**



**Business customers**

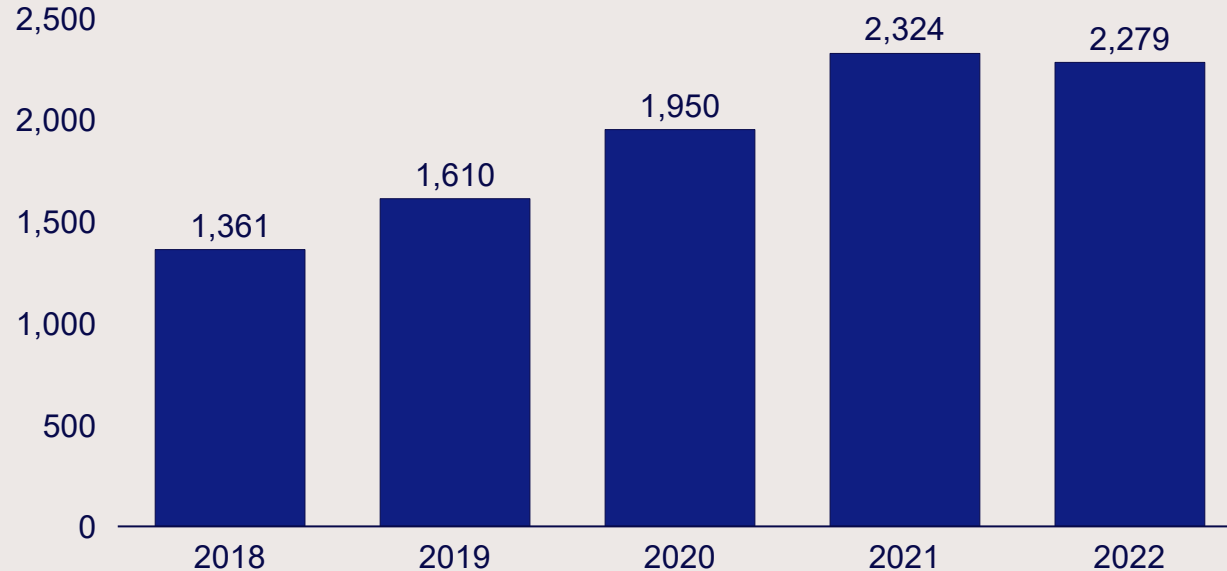




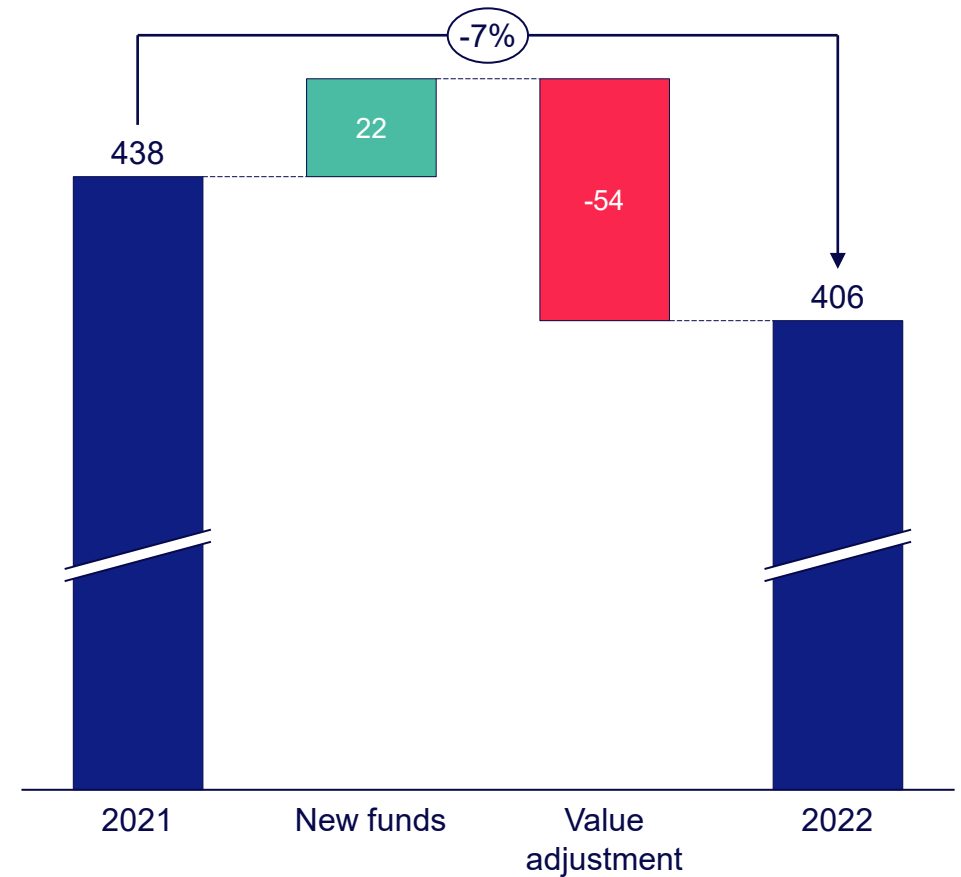
# Wealth Management Income

- We continue to see an inflow of new funds which impacts income positively. However, income is down 2% driven by financial market turmoil
- AuM down 7% since end 2021 driven by negative value adjustments

## Wealth Management Income, DKKm



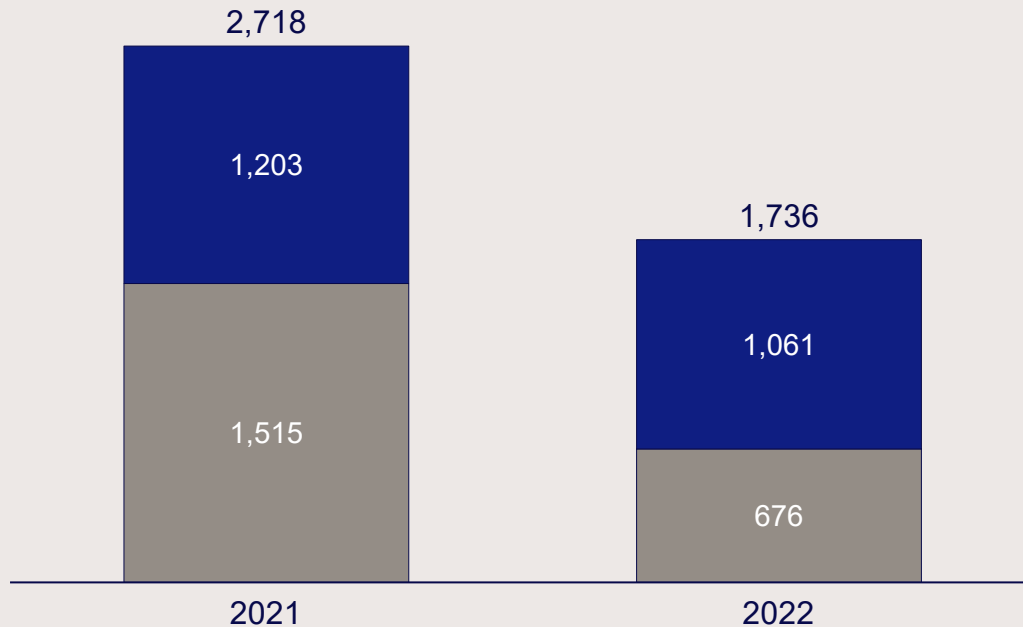
## Assets under Management, DKKbn



# Trading and investment income impacted by financial market volatility

## Trading and investment portfolio income, DKKm

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

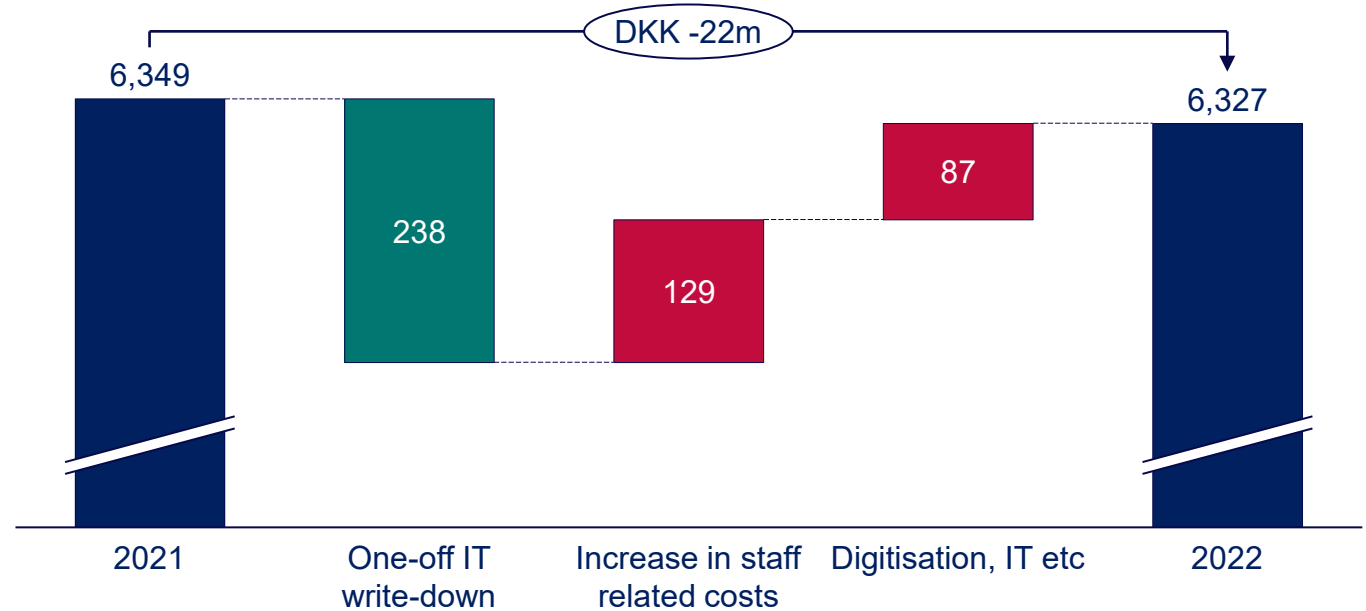


- Trading and investment portfolio income of DKK 1,736m in 2022
  - Driven by very strong performance in Q4
- Value adjustments on strategic bank shares remain positive
- Other investment portfolio income was impacted by
  - Positive value adjustments on swaps due to higher interest rates
  - Negative value adjustments on the portfolio of floating rate covered bonds due to spread widening

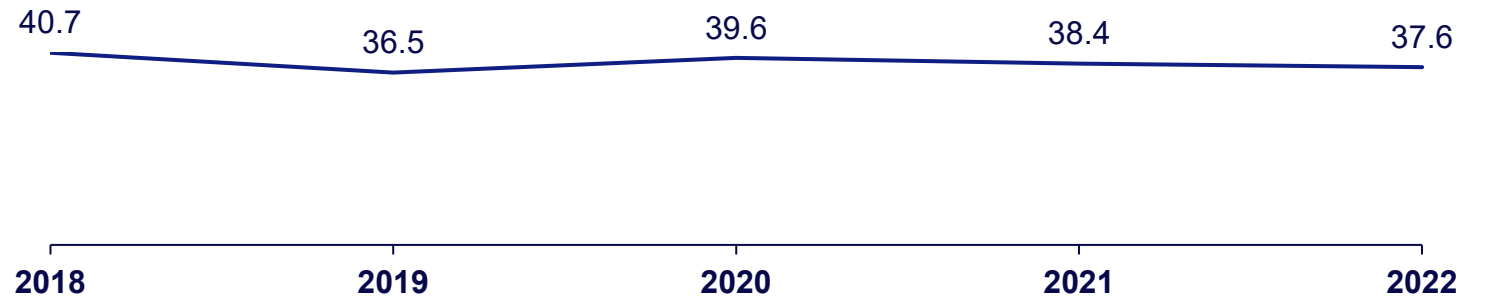
# Cost development

- Costs are down DKK 22m compared to 2021 despite new macro economic environment with higher inflation, etc.
- The main driver was a one-off IT write-down of DKK 238m in 2021
- Increase of DKK 129m related to payroll and higher bonus
- Increase in costs related to digitisation, IT, compliance, etc. amounts to DKK 87m

Change in costs from 2021 to 2022, DKKm



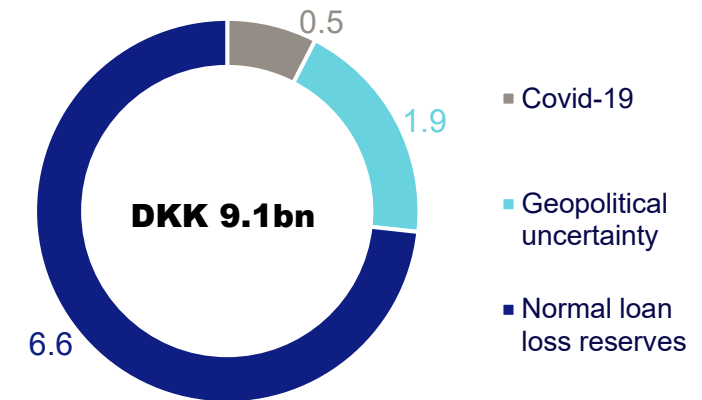
Cost/income ratio, %



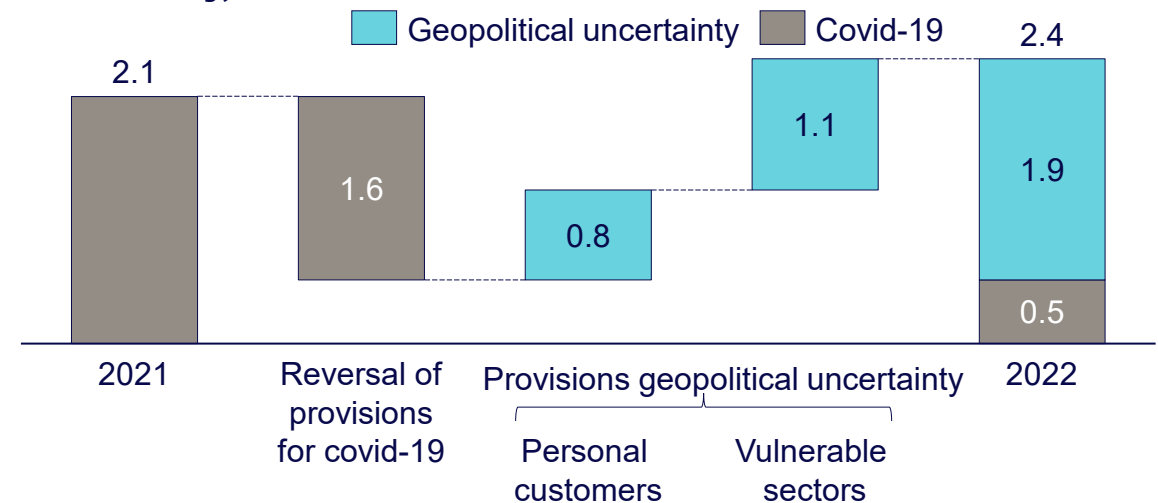
# Strong buffer for potential headwind

- Reversal of impairment charges due to favourable economic conditions and improved credit quality of both homeowners and businesses
- Nykredit's provisions for potential loan losses from covid-19 and geopolitical uncertainty are conservative and amount to DKK 2.4bn
  - Nykredit has reversed DKK 1.6bn of the initial provisions of DKK 2.1bn for potential losses from the covid-19 due to reduced risks
  - New provisions of DKK 1.9bn in response to increased risks related to geopolitical unrest
- Nykredit has focus on particularly exposed sectors and customers to ensure that any signs of weakness are captured and addressed in the credit process
- Total loan loss reserves amount to DKK 9.1bn

**Nykredit Group total loan loss reserves, DKKbn**



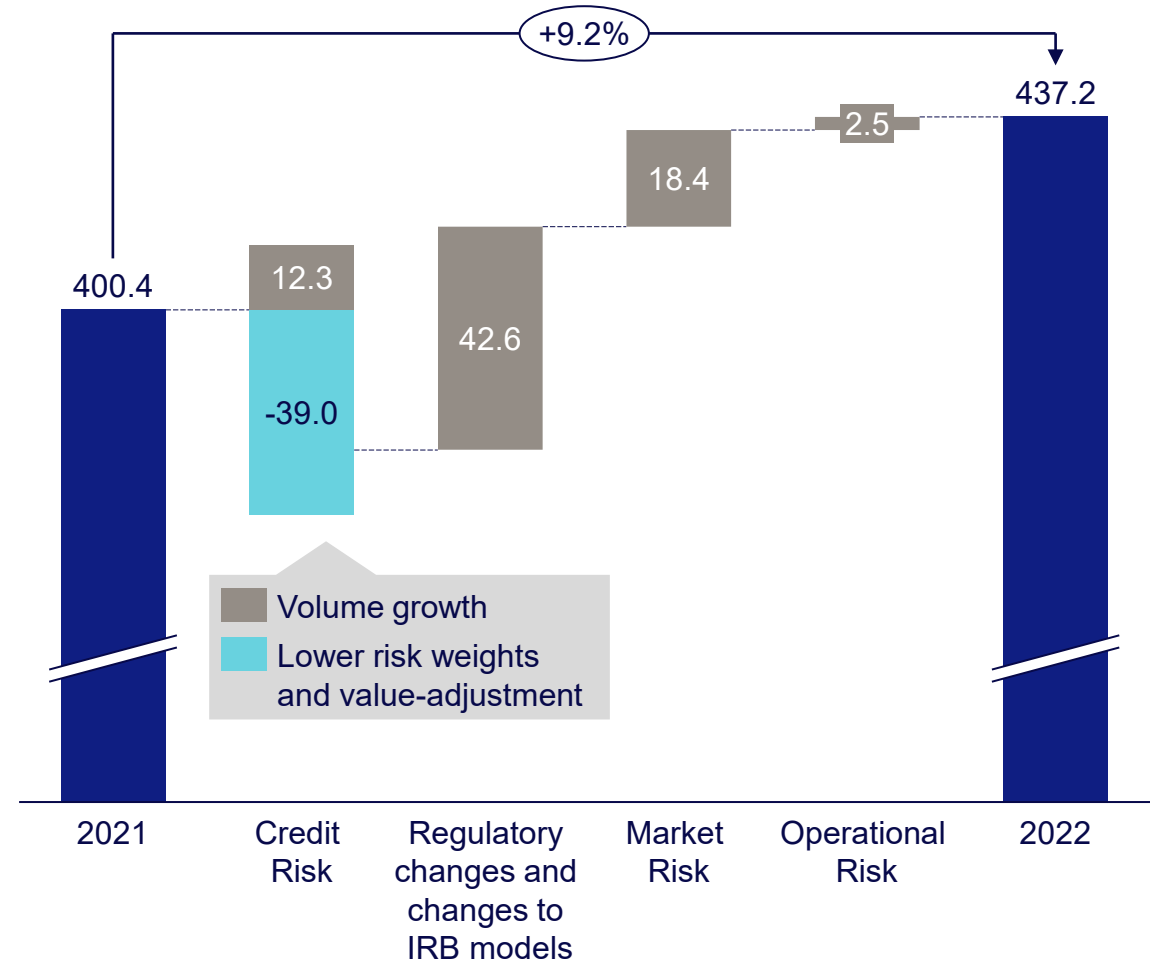
**Impairment provisions related to covid-19 and geopolitical uncertainty, DKKbn**



# Upward regulatory pressure on REA

- In 2022, the risk exposure amount increased by DKK 37bn
- Volume growth contributed DKK 12bn
- Credit risk on the existing stock declined by DKK 39bn, as credit quality remained strong, and higher interest rates reduced the outstanding mortgage debt
- Regulatory changes (EBA guidelines) added DKK 43bn to REA
- Market risk increased due to the financial market unrest
- Economic downturn and property price declines are expected to contribute to higher risk exposures in the future

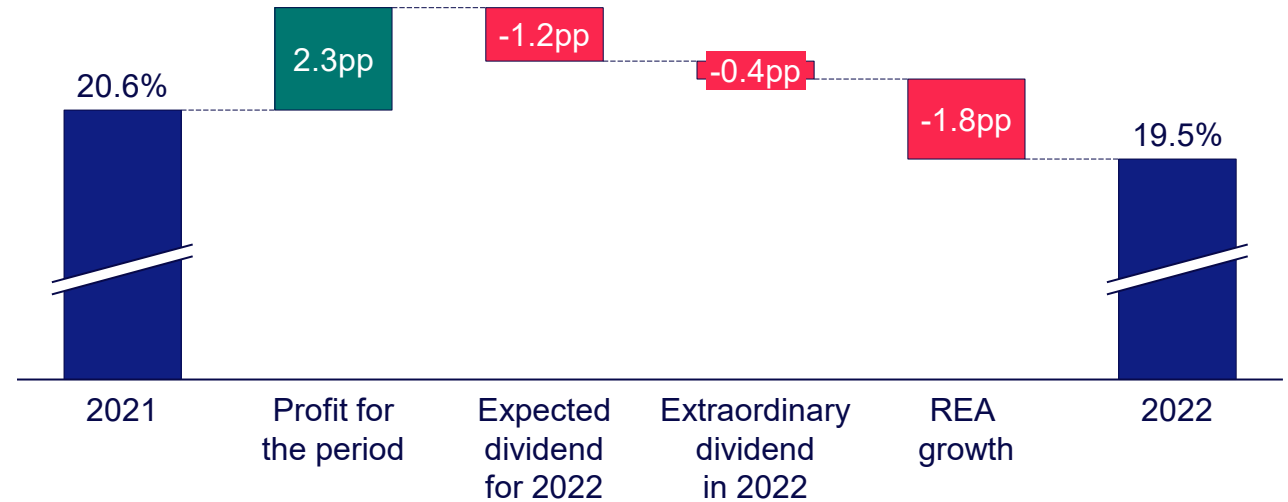
Risk Exposure Amount (REA), DKKbn



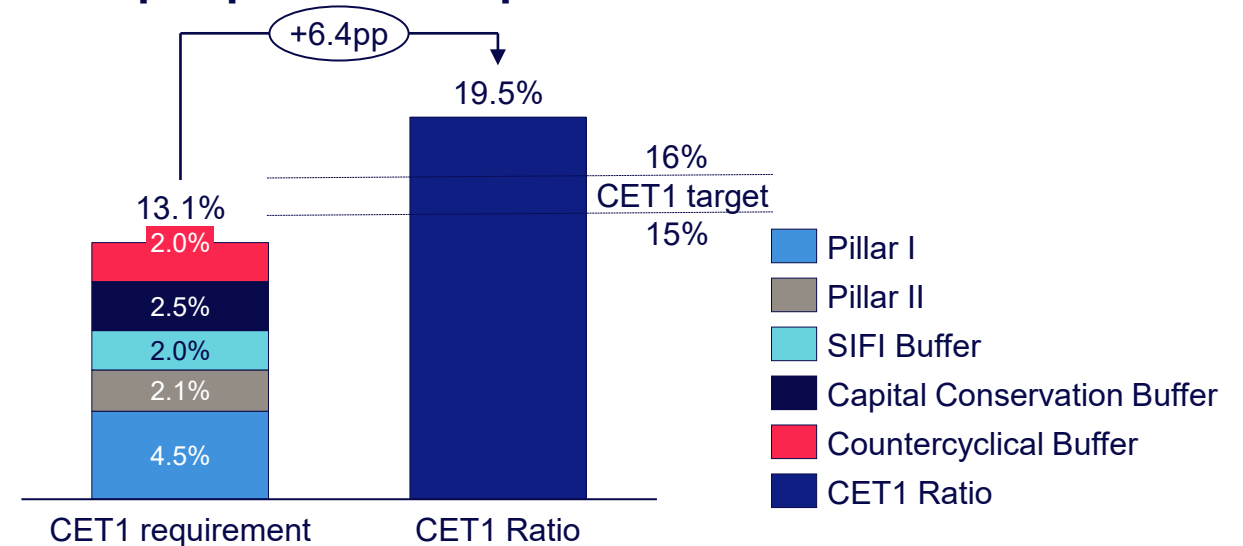
# Strong capitalisation

- The CET1 ratio of 19.5% is some 400bps above policy target:
  - Proposed dividend of DKK 4.65bn corresponding to 50% of net profits for 2022
  - In 2022, Nykredit paid out a dividend of DKK 1.55bn from the earnings retained in 2019 and 2020
  - Additional capital distribution may be considered later in the year
  
- According to the annual stress which must be submitted to the Danish FSA, Nykredit is sufficiently resilient to withstand a severe recession
  
- Nykredit's capital policy target includes an incremental buffer of 400bps for a hard macro stress on top of capital buffers

## CET1 capital ratio



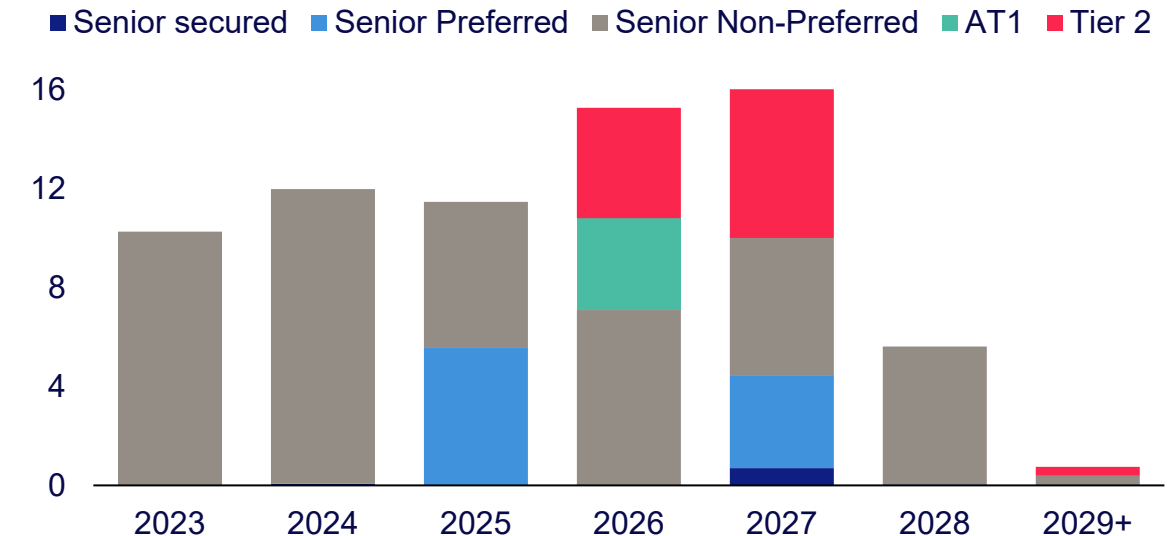
## CET1 capital position and requirement



# Funding needs driven by refinancing

- 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
- However, Nykredit's funding need has been reduced due to a decrease in our balance sheet driven by higher interest rates
- In addition to the issuance of covered bonds, Nykredit expects to issue up to DKK 10bn until end-2023.
- In covered bonds, we are conducting quarterly refinancing auctions of shorter-dated covered bonds as well as daily tap issuance

**Nykredit Group maturity\* profile, DKKbn**



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

# Summary

## Strong results and income from business

- Very satisfactory profit before tax of DKK 11.5bn driven by continued business growth and core income lines
- Core income is up 11%, primarily driven by higher interest rates and very high activity in both mortgage and banking business
- Volume growth driven by household mortgage lending and bank lending to business customers
- Trading and investment income strong but lower than 2021 due to financial market volatility

## Credit quality

- Customers remain financially robust despite geopolitical uncertainty, high inflation and increasing energy prices reflected in a net reversal of impairment charges amounting to DKK 80m
- Reservation of DKK 2.4bn for losses related to covid and geopolitical uncertainty remains intact

## Financial targets

- Nykredit changes target from 7.5% RoAC to 8% RoE
- Cost/income target changed to below 40% from 45%
- Guidance will be based on profit after tax instead of business profit and profit before tax

## Guidance for 2023

- Guidance for profit after tax for 2023 of DKK 8.0 - 9.0bn
- Dividend policy of 50% of profit for the year. Additional capital distribution may be considered later in the year





# Appendix

# Q3 vs. Q4: High activity and financial market tailwind drives income up 48%

## Growth in core income lines

- Overall income up 48% Q/Q
  - NII increased 15% due to higher interest rates
  - Net Fee Income 14% higher driven by a high remortgaging activity
  - Wealth management income down 4% driven by negative value adjustments
  - Higher trading and investment portfolio income due to financial market tailwind, positive value adjustments and Danish covered bonds
- Costs up 9%
- Impairment charges amounted to DKK 145m
- Business profit of DKK 3,902m compared with DKK 2,329 in Q3/2022
- Legacy derivatives recorded a gain of DKK 42m compared with 220m in Q3/2022
- Profit before tax of DKK 3,248m compared with DKK 2,144m in Q3/2022

## Business results Q3/2022 vs Q4/2022

DKKm	Q3/2022	Q4/2022	Index
Income	3,881	5,729	148
- Net interest Income	2,665	3,054	115
- Net fee income	797	907	114
- Wealth management income	566	543	96
- Net interest from capitalisation	-182	-265	145
- Net interest income fr. customer benefit programmes	-132	-119	90
- Trading, investment portfolio and other income	168	1,610	958
Costs	1,550	1,682	109
Business profit before impairment charges	2,331	4,047	174
Impairment charges	1	145	9,716
Business profit	2,329	3,902	168
Legacy derivatives	220	42	19
Profit before tax	2,549	3,943	155
Tax	405	695	171
Profit	2,144	3,248	152

# Investor Relations contacts

## Morten Bækmand Nielsen

Head of ALM & Investor Relations

Tel: +45 44 55 15 21

Mobile: +45 23 39 41 68

Email: [mobn@nykredit.dk](mailto:mobn@nykredit.dk)



## Hanne Søgaard Foss

Investor Relations Manager

Tel: +45 44 55 12 36

Mobile: +45 26 36 89 18

Email: [hsan@nykredit.dk](mailto:hsan@nykredit.dk)



## Joachim Borg Hjalager

Chief Analyst

Tel: +45 44 55 15 02

Mobile: +45 22 28 02 16

Email: [jbkr@nykredit.dk](mailto:jbkr@nykredit.dk)



Investor relations website [www.nykredit.com/ir](http://www.nykredit.com/ir)

# Disclaimer

The information in this material (hereinafter the "Information") has been compiled by Nykredit Realkredit A/S (hereinafter "Nykredit") for informational purposes only. The Information is primarily based on information accessible to the public.

The Information is believed to be reliable. However, Nykredit does not guarantee the timeliness, sequence, accuracy, correctness, adequacy, or completeness of the Information or opinions contained therein, nor does Nykredit make any representations or warranties of any kind, whether express or implied. Further, labelling certain securities as "Green Bonds" does not, directly or indirectly imply any representation or warranty of any kind that these securities will satisfy the expectation or perception of any third party, as to what a "Green Bond"-label entails, neither at issuance or in future.

The Information does not constitute an offer to sell or the solicitation of an offer to buy any securities mentioned in the Information.

Nykredit makes no representation or warranties and gives no advice concerning the appropriate legal treatment, regulatory treatment, accounting treatment or possible tax consequences in connection with an investment in securities mentioned in the Information. Before proceeding with any such investment investors should determine, without reliance upon Nykredit, the economic risk and merits, as well as the legal, tax, regulatory and accounting characteristics and consequences, of such an investment and that investors are able to assume these risks. Investors should conduct their own analysis, using such assumptions as they deem appropriate in making an investment decision. Nykredit does not accept any liability for any loss, howsoever arising, directly or indirectly from the issue of the Information or its contents including transactions made based on information therein.

The Information contains certain tables and other statistical analyses (the "Statistical Information") which have been prepared in reliance upon information accessible to the public. Numerous assumptions were used in preparing the Statistical Information, which may not be reflected herein. As such, no assurance can be given as to the Statistical Information's accuracy, appropriateness or completeness in any particular context, nor as to whether the Statistical Information and or the assumptions upon which they are based reflect present market conditions or future market performance. The Statistical Information should not be construed as either projections or predictions or as legal, tax, financial or accounting advice. Calculations and presentations are based on ordinary econometric and financial tools and methods as well as publicly available sources.

Assessments and recommendations, if any, made in the Information may involve substantial risks. Such risks, including a sensitivity analysis based on relevant assumptions, have been described in the Information.

Nykredit and/or other companies of the Nykredit Group are financial institutions and banks that trade in securities. Any company in the Nykredit Group may buy, sell or hold positions in the securities mentioned in the Information, just as these companies may be involved in activities involving companies mentioned herein.

The Information is being directed at you solely in your capacity as a relevant person for your information and may not be reproduced or redistributed or passed on to any other person or published in whole or in part, for any purpose, without the prior written consent of Nykredit. Relevant persons are persons who have professional experience in matters relating to investments in securities mentioned in the Information and to whom the Information may be lawfully communicated.

The Information may not be acted on or relied on by persons who are not relevant persons.