Nykredit

Nykredit Group

H1/2022 Earnings call

17 August 2022

Numbers relate to Nykredit Group

Agenda

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Highlights of H1/2022

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 results in H1/2022

A very satisfactory result for H1/2022 despite economic uncertainty

- Continued strong business growth across the Group
- High mortgage activity and volume growth drives income up
- Full year guidance unchanged despite financial market headwind

Stronger market position across business lines

- Growth in nominal mortgage lending volumes as well as in bank lending
- Inflow of new funds in Wealth Management offset by negative value adjustments from financial market volatility

Strong capitalisation and credit quality

- CET1 ratio of 19.8%
- Strong credit quality with loan loss impairments posting a net gain
- Reservation of DKK 2.3bn for potential losses related to covid-19 and geopolitical uncertainty remains intact

A very satisfactory result for H1/2022

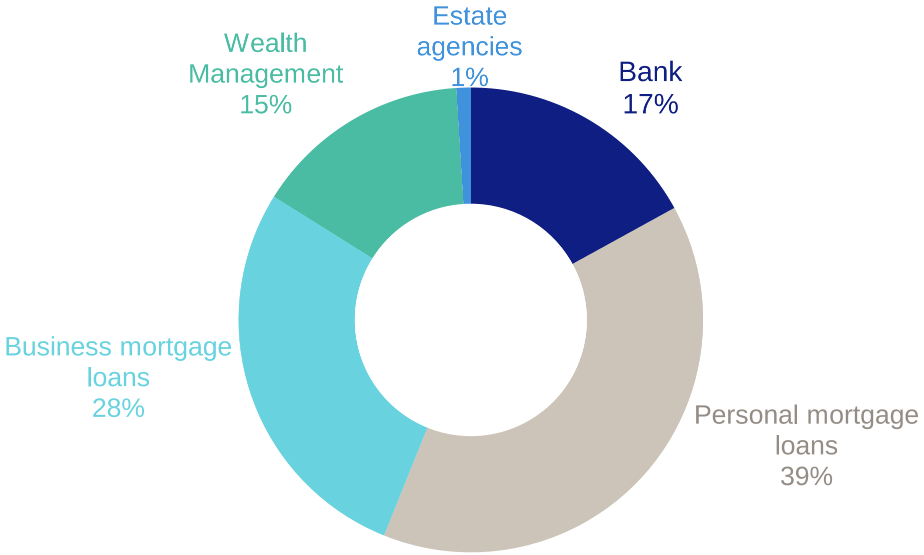
DKKm	H1/2020	H1/2021	H1/2022
Core income[1]	6,955	7,256	**7,738**
Trading and investment income	-189	1,244	**-41**
Costs	-2,841	-2,989	**-3,094**
Impairment charges[2]	1,755	89	**-226**
Business profit	1,875	5,002	**4,344**
Profit before tax	1,770	5,295	**5,015**
Return on equity after tax, % p.a.	3.6%	9.7%	**8.9%**
ROAC after tax, % p.a.	4.6%	13.1%	**12.1%**
Cost:Income ratio	43.9%	37.0%	**42.9%**

[1] NII, NFI and Wealth Management income
[2] A negative number indicates a gain

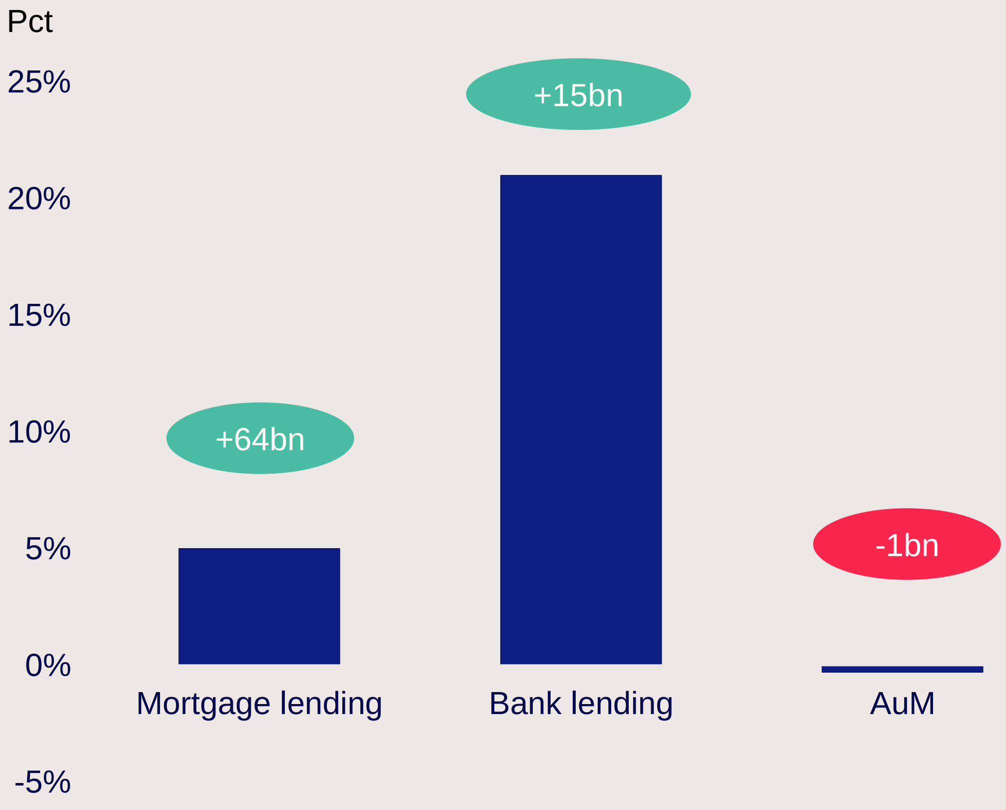
Continued volume growth and customer inflow

- Strong business performance with volume growth driven by:
  - Households and Corporate & Institutions in mortgage lending
  - +20% growth in bank lending driven by commercial customers
  - 10% organic growth in funds under management was offset by negative value adjustments in Wealth Management

Core income is well diversified on products



Volume growth in all business areas, H1/2021 – H1/2022



Strong capitalisation makes Nykredit resilient to stress

- Nykredit has a strong capitalisation with a CET1 ratio of 19.8%
- Arrears remain very low and our DKK 2.3bn reservation for potential loan losses related to covid-19 and the geopolitical unrest remains intact
- The macroeconomic conditions for the vast majority of our customers have been and remain very benign, and Nykredit's capital position is resilient:
  - Stress tests support Nykredit's capital policy target that includes an incremental buffer of 400bps for hard macro stress on top of capital buffers
- The ownership structure provides Nykredit with access to additional capital of some 485bps of current REA if required

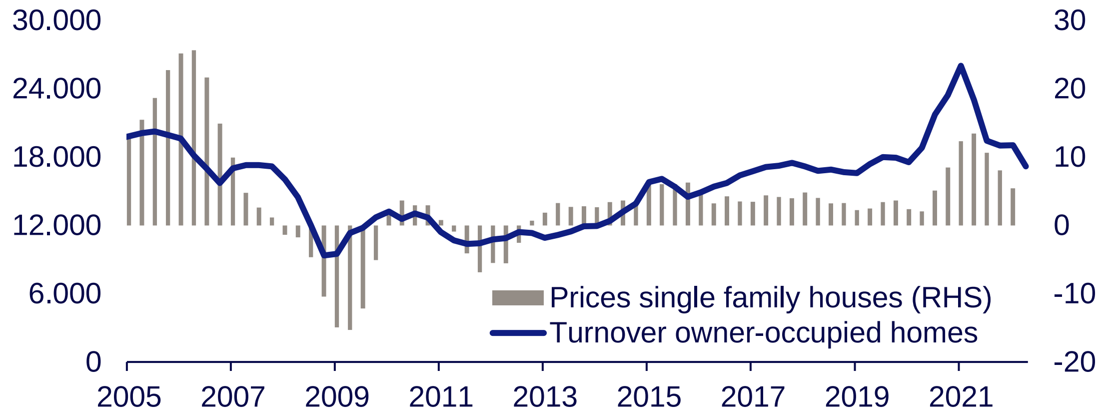
Nykredit Group capital position

	Capital policy	H1/2022
Risk Exposure Amount (REA)		425.8bn
CET1		84.7bn
CET1 ratio	15.0 – 16.0%	19.8%
Total capital ratio	19.5 – 20.5%	22.5%
Leverage ratio		4.9%
Pillar I		8.0%
Pillar II		3.2%
Solvency requirement		11.2%

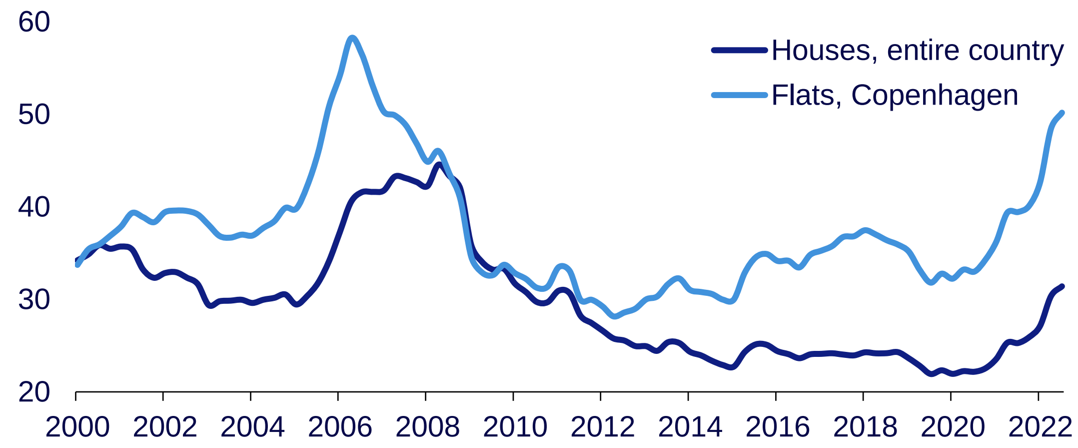
Housing market is cooling down

- Denmark has seen a strong housing market with record high turnover
- Property sales have decreased in the first half of 2022 and the number of properties for sale is increasing
- Higher interest rates, energy prices, inflation and uncertainty about the economy in general are expected to lead to a slowdown in the housing market going forward
- Economic fundamentals remain strong
  - Danish households are robust with large amounts of liquid savings
  - The unemployment rate remains low at 2.5% in June
- Affordability is still favourable overall, but there some sub-markets are prone to price corrections

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



Housing burden, % of disposable income

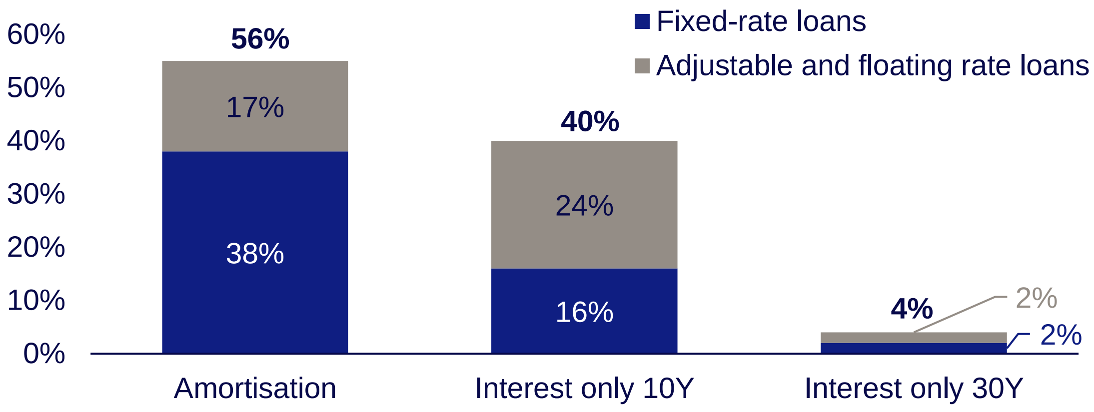


Source: Macrobond, Statistics Denmark, boligsiden.dk and Nykredit. * Seasonally adjusted.

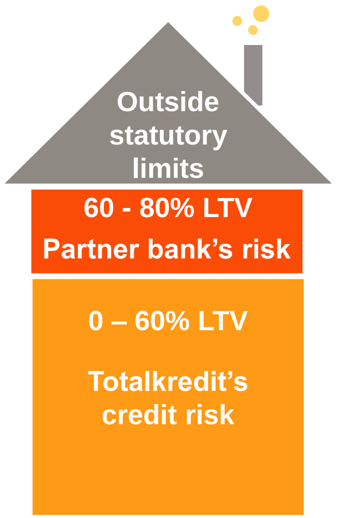
Danish homeowners are resilient to a potential slowdown

- Homeowners having variable-rate loans and high LTVs are most vulnerable to higher interest rates and property price declines
- Fixed-rate loans and amortisation dominates lending in Totalkredit which protects borrowers against increasing interest rates and secure home equity
- Average LTV has declined in H1/2022 from 60% to 54%

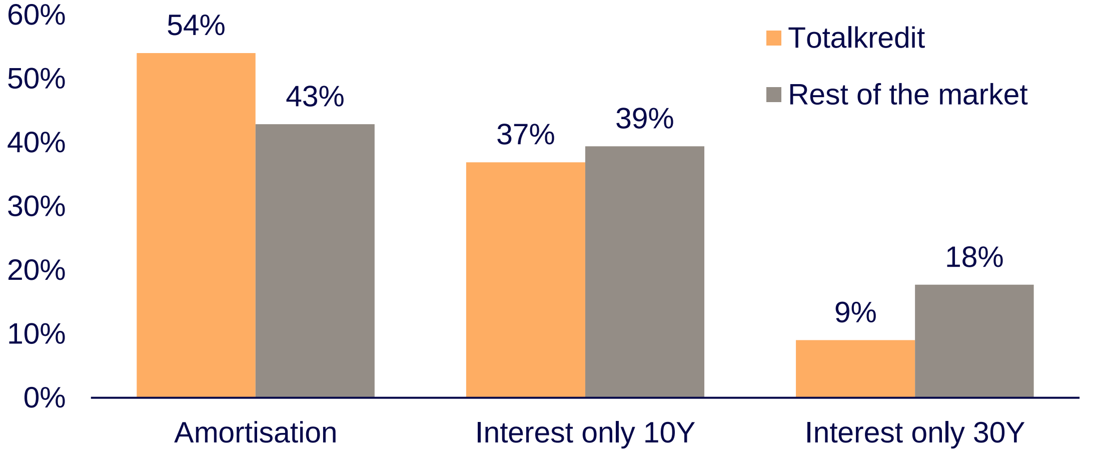
Outstanding mortgage loans in Totalkredit, end-H1/2022



Credit risk above 60% LTV is covered by the partner bank



Share of issued fixed-rate 2053 series mortgage bonds



Note: Mortgage loans for private residential properties

Summary

Strong results and volume growth	▪ Very satisfactory business profit before tax of DKK 5.0bn despite market volatility and geopolitical uncertainty ▪ Continued strong business growth across the Group with volume growth and customer inflow in both mortgage and bank lending as well as inflow of new funds in wealth management ▪ Satisfactory improvement in NII, NFI and Wealth Management Income. Trading and investment income negatively impacted by market turmoil in Q2 which eliminated gains in Q1 ▪ ROAC of 12.1% p.a. and ROE of 8.9% p.a.
Credit quality and geopolitical uncertainty	▪ Credit quality remains strong resulting in write-backs of impairments amounting to DKK 226m ▪ Customers remain in a strong financial position despite geopolitical uncertainty and increasing consumer and energy prices ▪ Reservation of DKK 2.3bn for loan losses related to covid and geopolitical uncertainty remains intact
Guidance for 2022	▪ Guidance for business profit and profit before tax for 2022 are unchanged of DKK 8.5 – 9.5bn

Financial performance, credit and funding

CFO David Hellemann

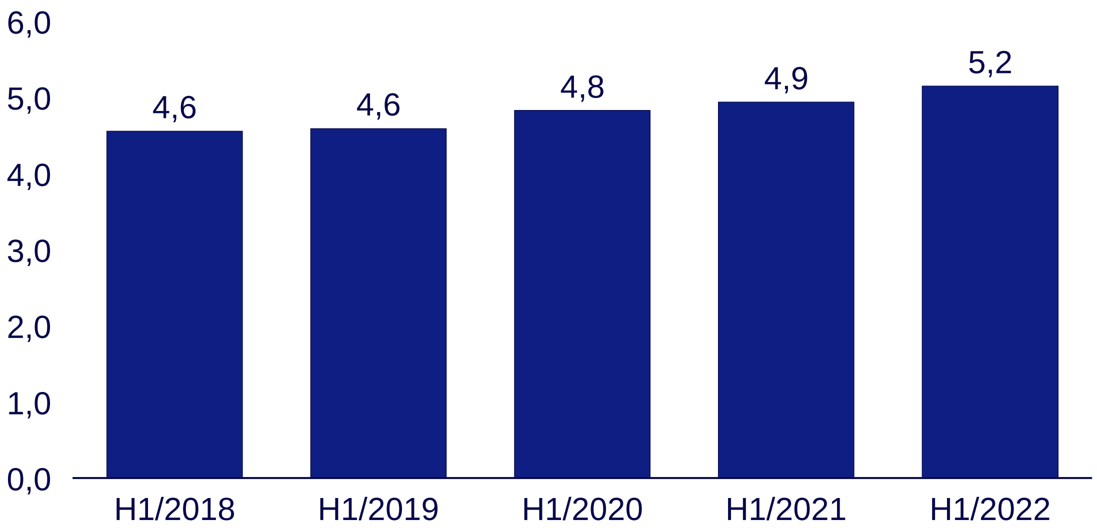
Group income statement – H1 2022 vs H1/2021

DKKm	H1/2021	H1/2022	Change	
Net Interest Income	4,940	5,152	4%	Driven higher mainly by volume growth in bank and mortgage lending
Net Fee Income	1,216	1,415	16%	Increased due to a very high remortgaging activity
Wealth Management Income	1,100	1,171	6%	Increased due to larger average volumes
Customer benefits & capitalisation costs	-420	-484	15%	Driven higher by larger volumes of bail-inable debt and growth in mortgage lending
Trading and Investment portfolio	1,244	-41		Down due to spread widening on Danish covered bonds and lower value adjustments on strategic bank shares
Costs	2,989	3,094	4%	Driven mainly by wage inflation and performance bonuses as well as compliance
Impairment charges	89	-226		Writeback of impairment charges in H1 as underlying credit quality remains strong and property prices remain high
Business profit	**5,002**	**4,344**	**-13%**	
Legacy derivatives	292	670	129%	Positive value adjustment driven by higher interest rates
Profit before tax	**5,295**	**5,015**	**-5%**	

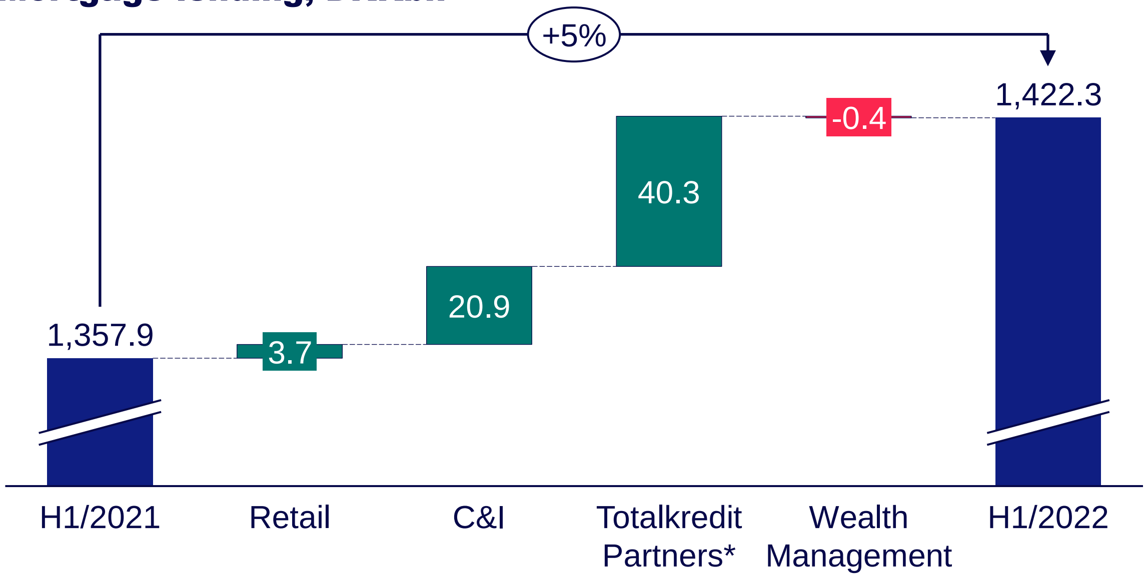
Net Interest Income up 4% driven by volume growth

- 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 gradual 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

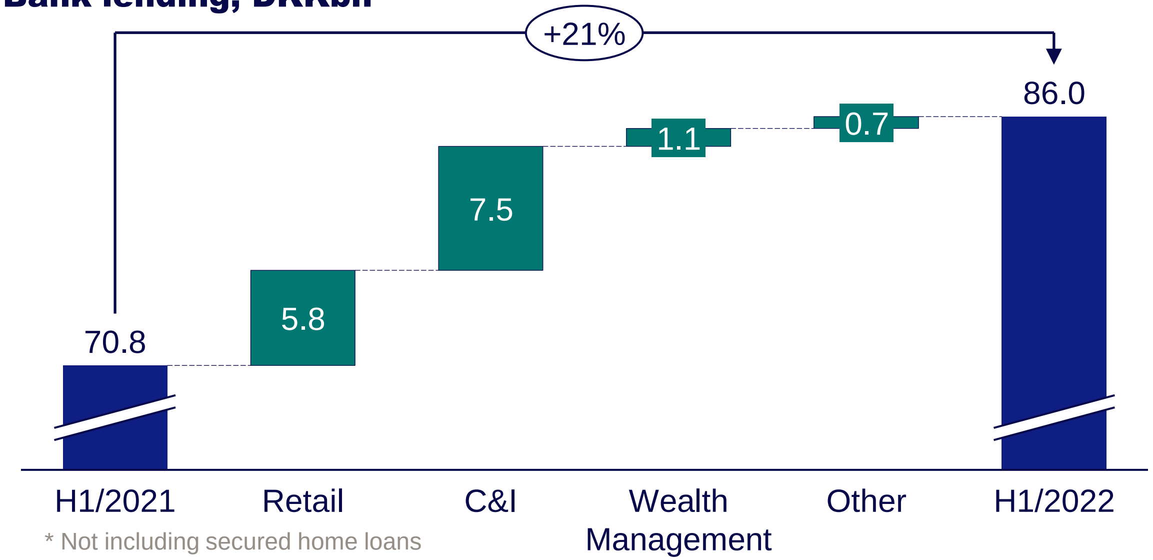
NII, DKKbn



Mortgage lending, DKKbn



Bank lending, DKKbn

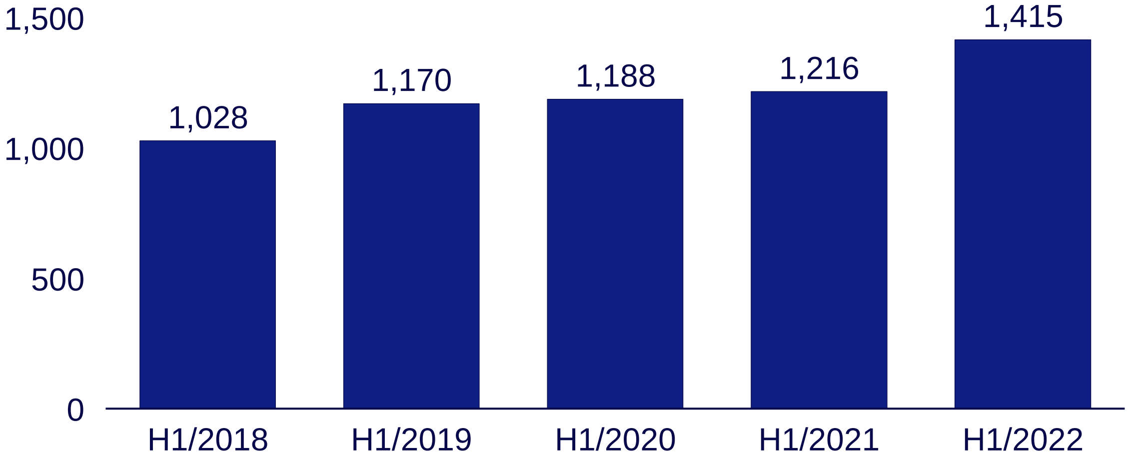


* Not including secured home loans

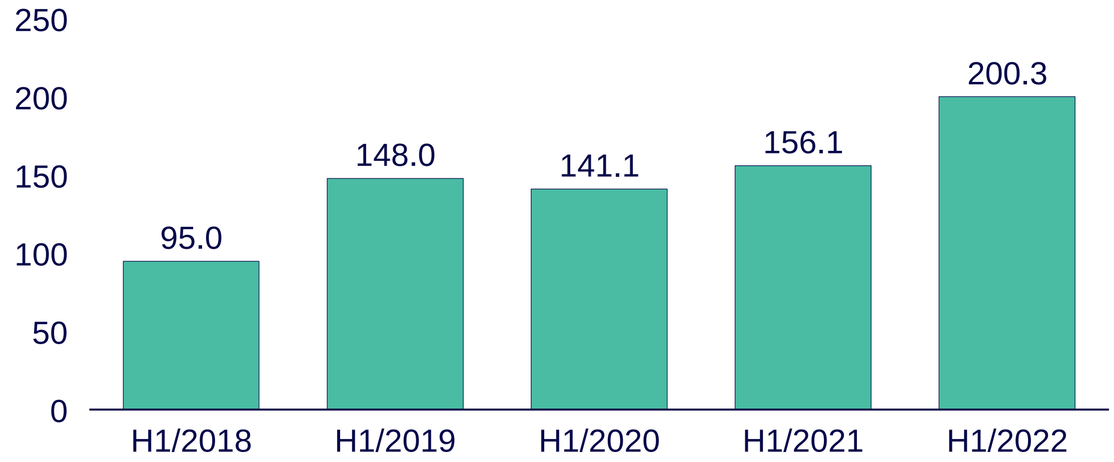
Net fee income up 16% driven by mortgage activity

- In banking fee income is lower than last year
- However, the remortgaging activity increased in H1/2022 driven by both retail and commercial customers
- Customers take advantage of the unique Danish system that allows them to reduce debt principal as interest rates increase
  - Covered bonds issued to fund the mortgage loan can be purchased at market price far below par and used to redeem the loan
  - A new mortgage loan with a lower principal is disbursed to fund the buy-back
  - This remortgaging activity gives rise to one-off fee income
- Higher interest rates reduce Nykredit's outstanding mortgage lending portfolio at fair value

Net Fee Income, DKKm

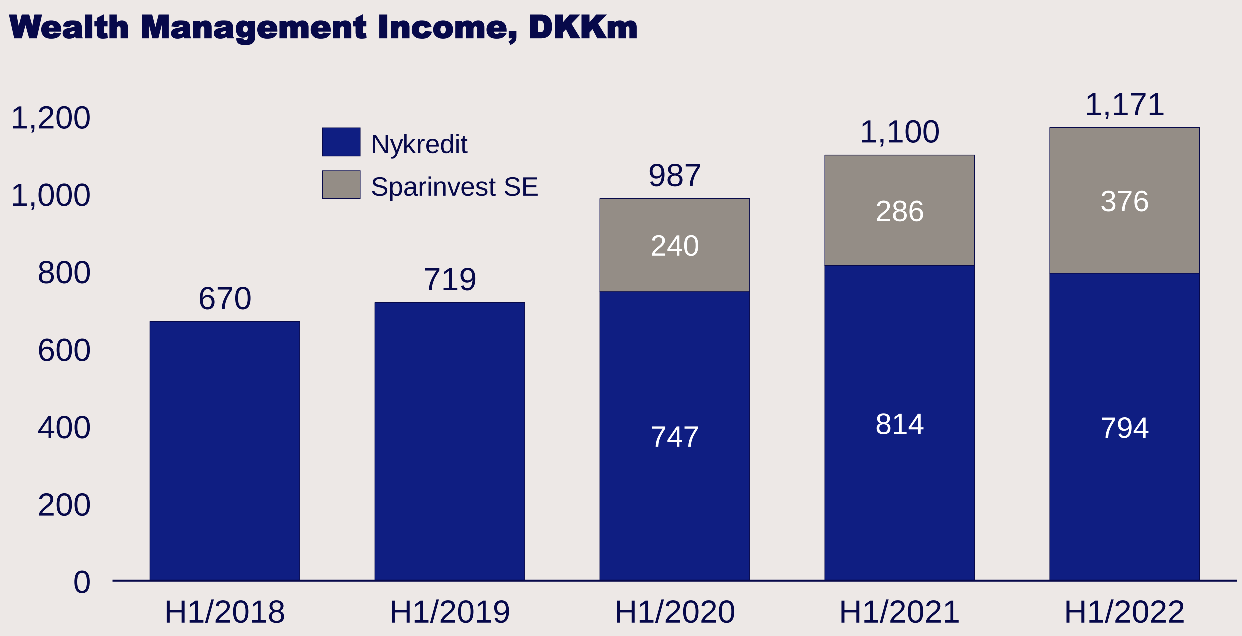


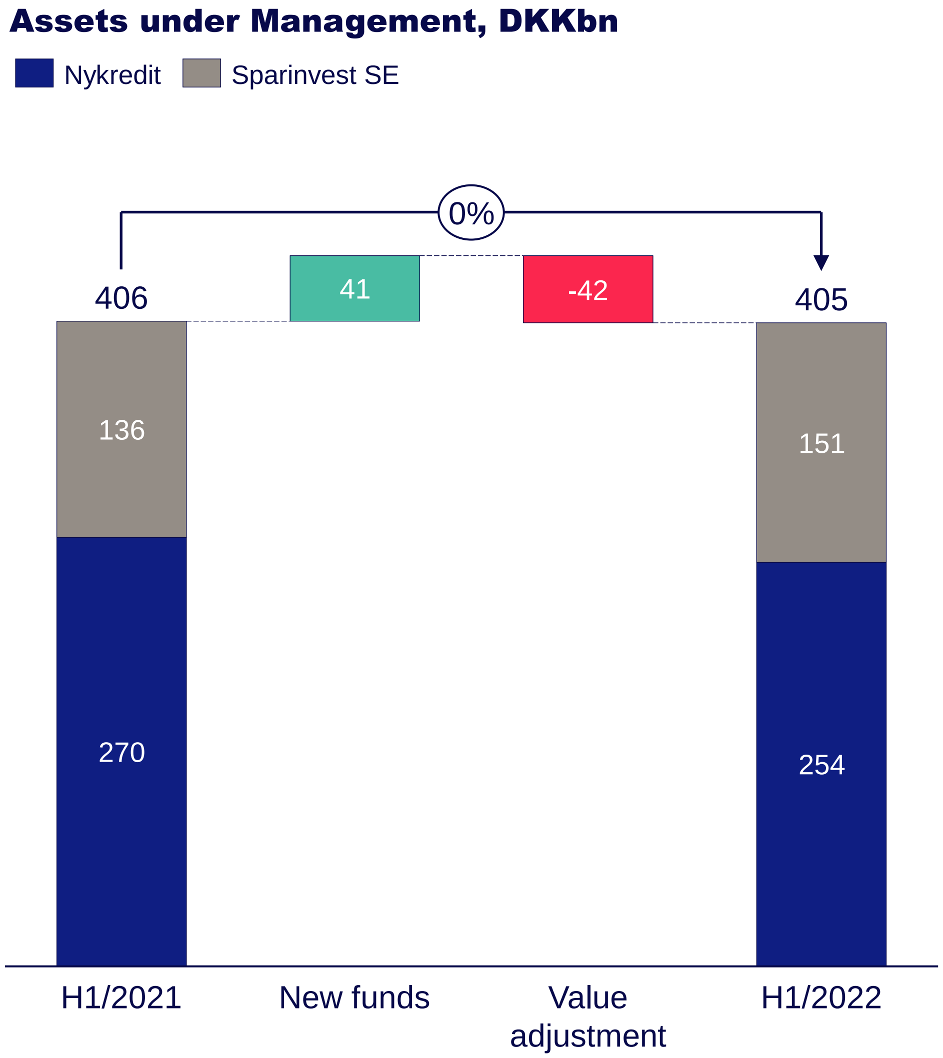
Gross lending, DKKm



Wealth Management Income up 6%

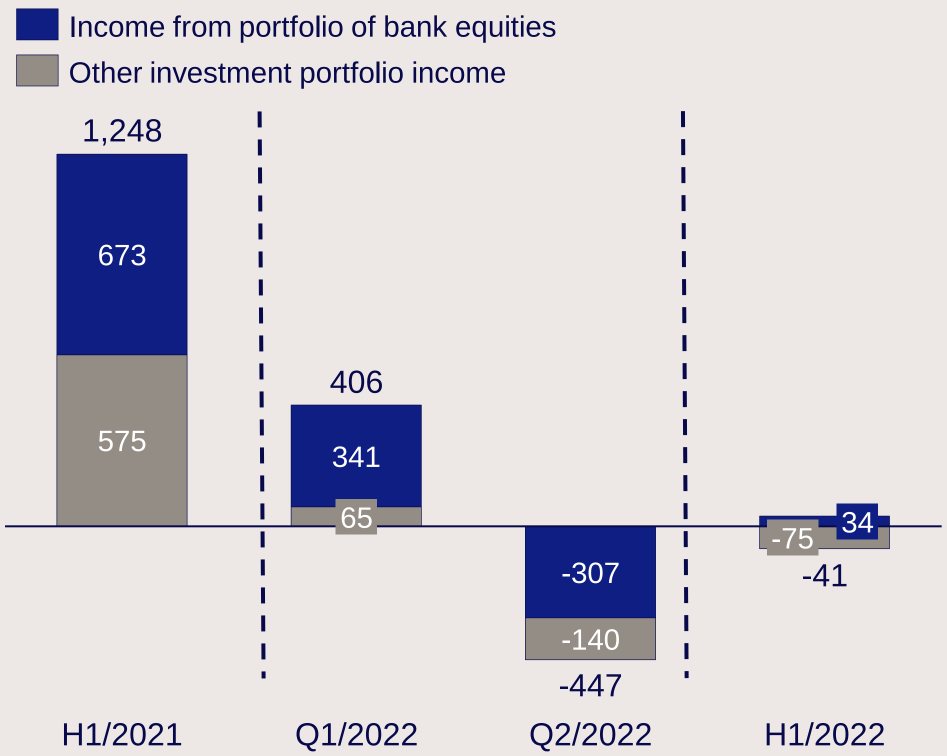
- Income growth driven by larger average volumes
- AuM broadly unchanged since H1/2021 as inflow of new funds was offset by negative value adjustments due to financial market volatility





Trading and investment income impacted by financial market headwind

Trading and investment portfolio income, DKKm

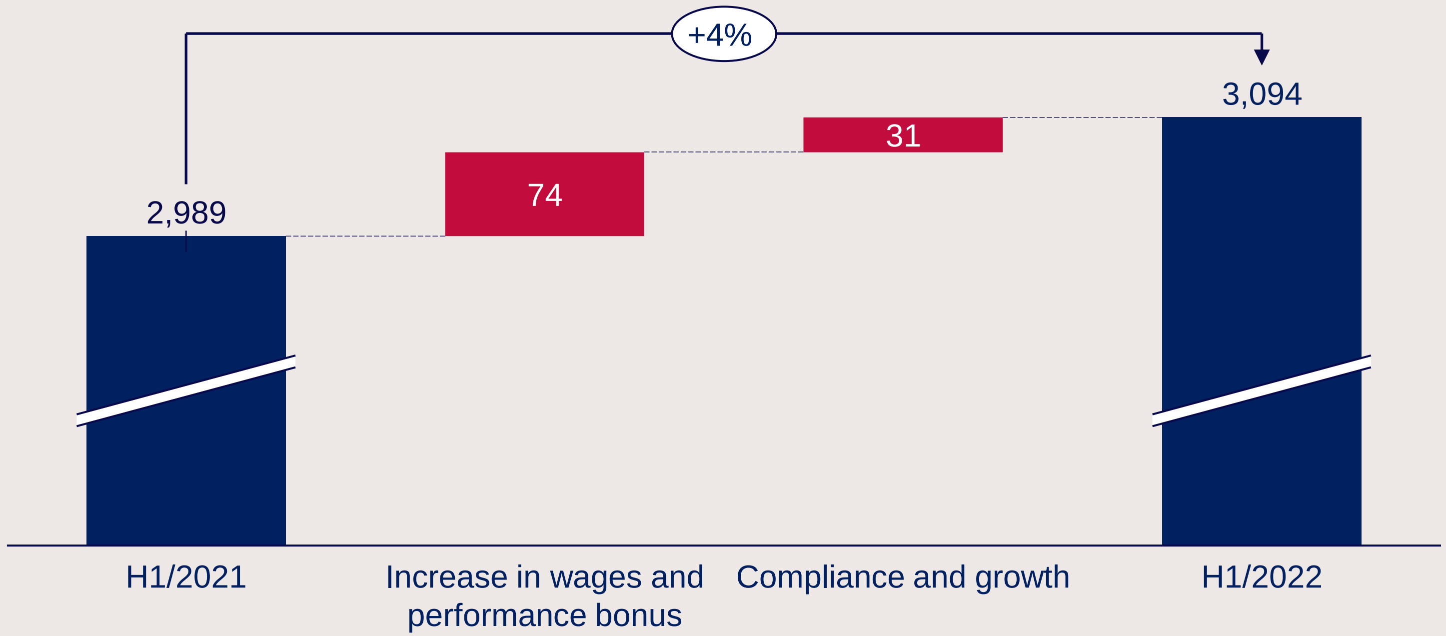


- Trading and investment portfolio income of DKK -41m in H1/2022 as negative value adjustments in Q2 offset gains on strategic bank share in Q1
- Value adjustments on strategic bank shares remain positive
- Other investment portfolio income was impacted by
  - Negative value adjustments on the portfolio of floating rate covered bonds due to spread widening
  - Positive value adjustments on swaps due to higher interest rates

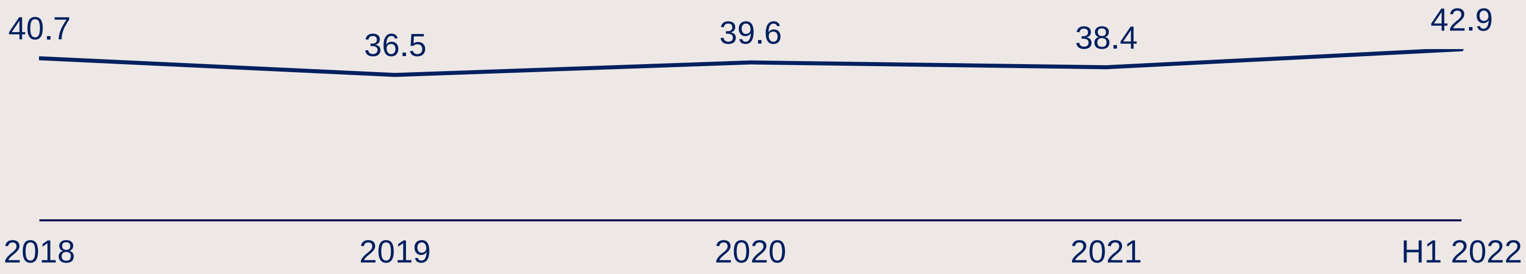
Cost development

- Costs are up 4% compared to H1/2021
- The main driver was an increase in wages and performance bonuses
- Additionally, an increase in cost related to compliance and growth amounts to DKK 31m

Change in costs from H1/2021 to H1/2022, DKKm



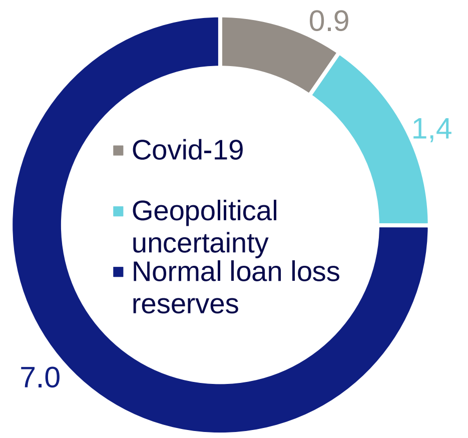
Cost:Income ratio, %



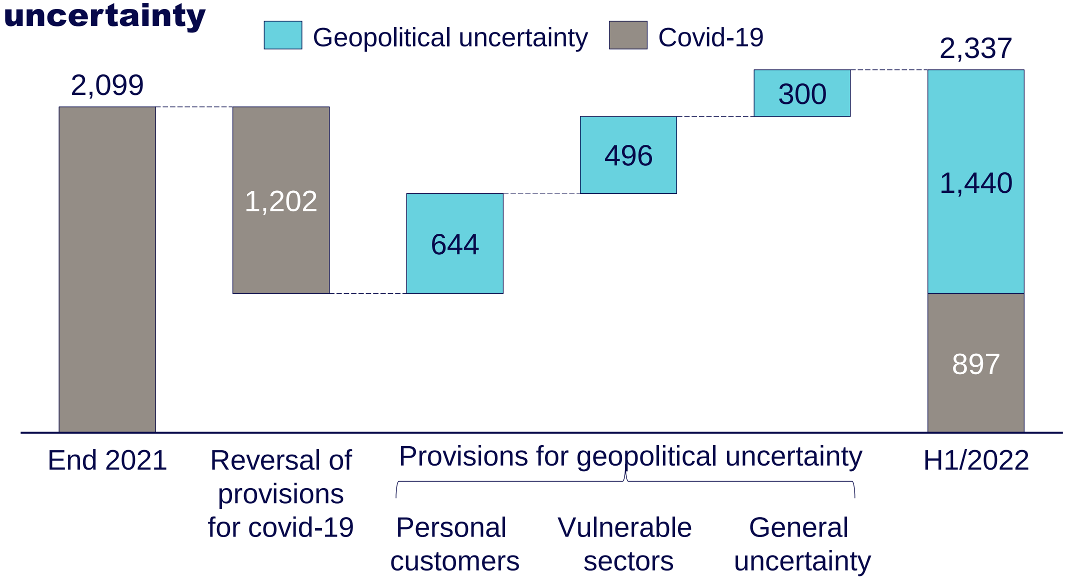
Reversal of covid-19 provisions largely offset by new provisions

- Provisions in H1/2022 amounted to a gain of DKK 226m
- Of the initial provisions of DKK 2.1bn for potential losses from the covid-19 crisis, Nykredit has reversed DKK 1.2bn due to reduced risks
- Government help supported the Danish economy during covid-19. In 2022 most VAT and tax loans will expire posing a risk of bankruptcies and hence of credit losses
- In H1/2022 Nykredit provisioned DKK 1.4bn in response to increased risks related to geopolitical unrest
- Total loan loss reserves amount to DKK 9.3bn
    - of which reservations for covid-19 and geopolitical uncertainty amount to DKK 2.3bn

Nykredit Group loan loss reserves, DKKbn



Impairment provisions related to covid-19 and geopolitical uncertainty

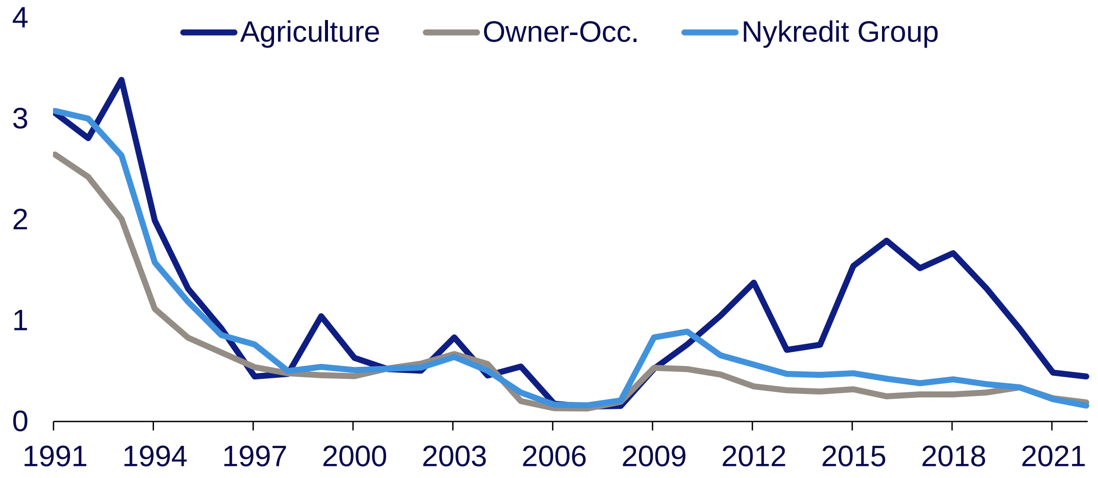


Credit quality remains strong

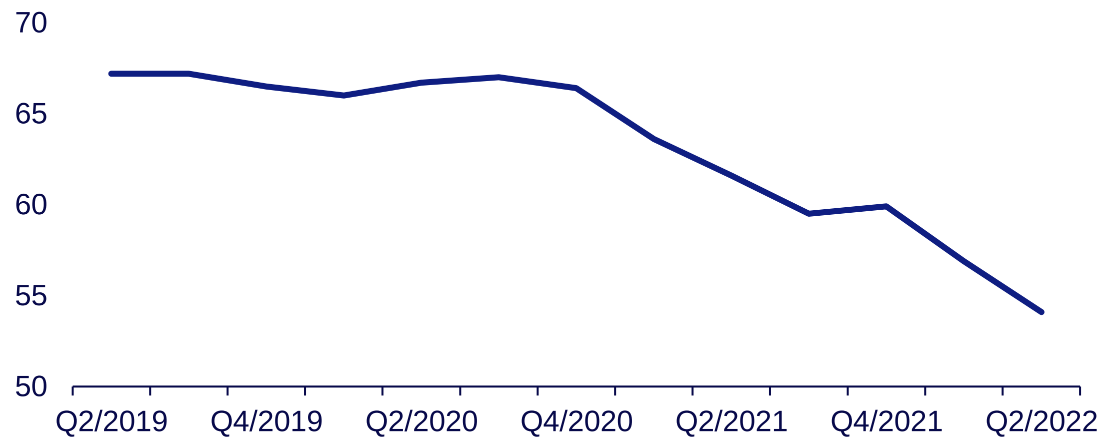
- Unemployment and property prices are key drivers of credit risk for Nykredit
  - The unemployment rate increased to 2.5% end-June 2022 but remains very low
  - The housing market remains strong though we see deceleration in prices and turn-over
  - Danish households are still very robust with large accumulated savings
- Some commercial customers in selected sectors are challenged due to increasing energy prices and supply chain challenges
- Average LTV decreased over the past years, reflecting amortisation and higher property prices
- Nykredit and Totalkredit are well protected via credit risk sharing model with partner banks

Source: Nykredit company reports and Fact Book

75-day mortgage arrears to latest term, %



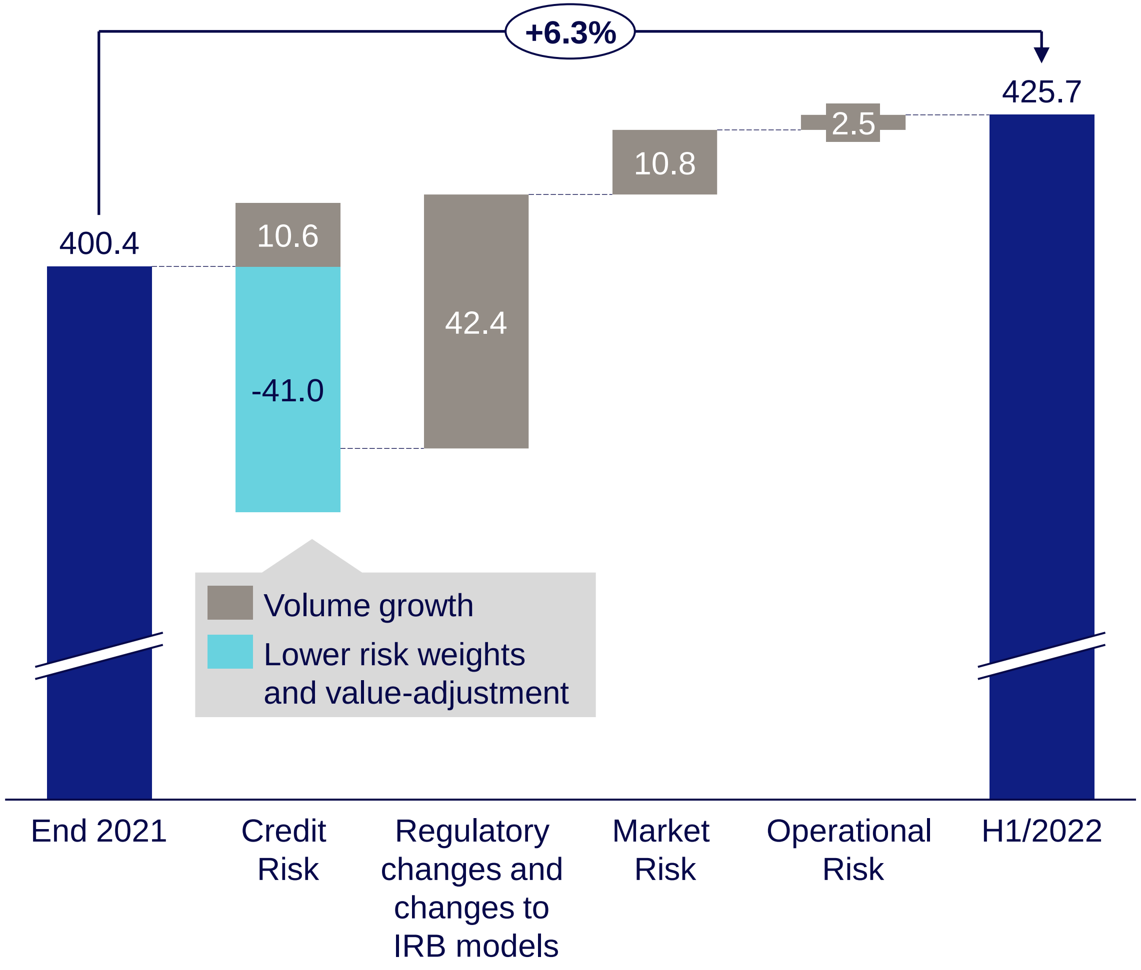
Average LTV, private residential properties, %



Upward pressure on REA

- In H1/2022, the risk exposure amount increased by DKK 25bn
- The volume growth contributed risk exposures of almost DKK 11bn in H1
- Credit risk on the existing stock has basically declined due to low arrears, overdrafts and rising property prices. In addition, higher interest rates have reduced the market value of fixed-rate loans
- Risk exposures from credit risk and regulatory changes amount to a net increase of DKK 12bn (+10.6 – 41.0 + 42.4). This was expected and mainly due to implementation of new EBA guidelines
- Market risk has increased due to the financial market unrest in 2022

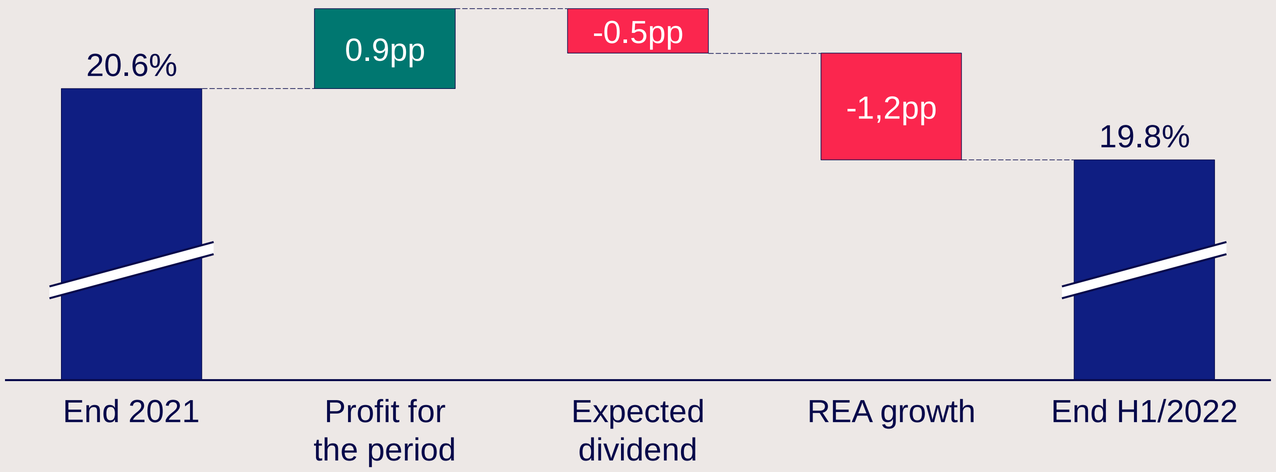
Risk Exposure Amount (REA), DKKbn



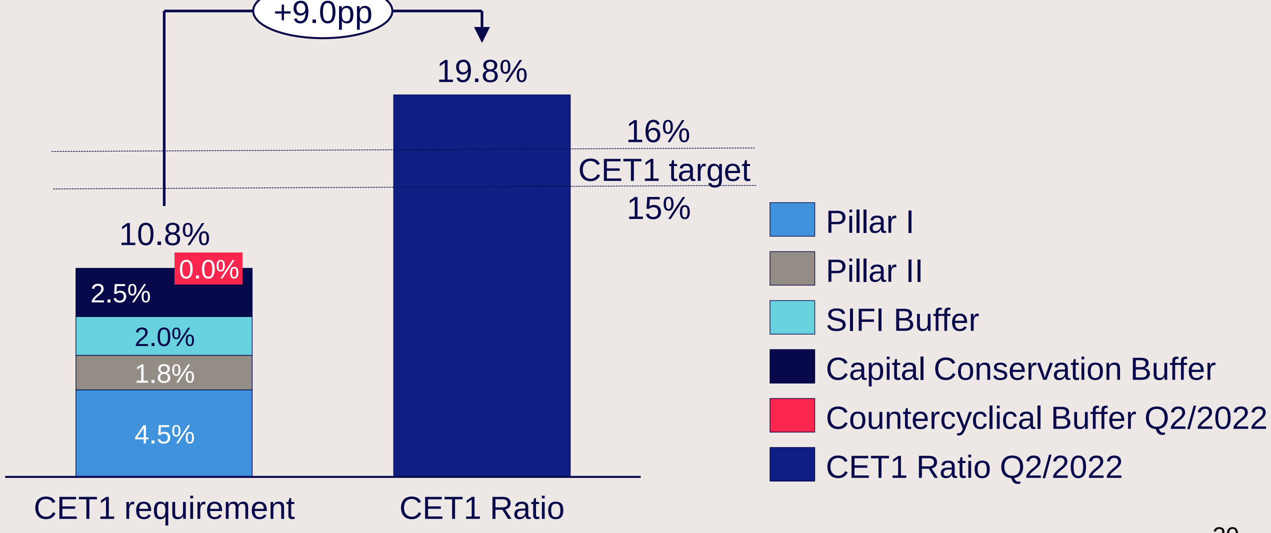
Strong capitalisation

- The CET1 ratio of 19.8% is some 430bps above policy target:
  - In March 2022, Nykredit paid out a dividend of DKK 4.35bn corresponding to 50% of net profits for 2021
  - The capital excess is related to Nykredit's reservation of CET1 capital for the future impact of Basel IV
  - The IRB changes are effectively reducing the expected impact of output floors under Basel IV
- The countercyclical buffer will be reactivated:
  - 1% by end-September 2022 and 2.5% by end-March 2023
  - Potential use of a new Systemic Risk Buffer in Denmark
- According to the annual stress test to the Danish FSA, Nykredit is sufficiently resilient to withstand a severe recession and test results are well within the framework of Nykredit's capital policy

CET1 capital ratio



CET1 capital position and requirement

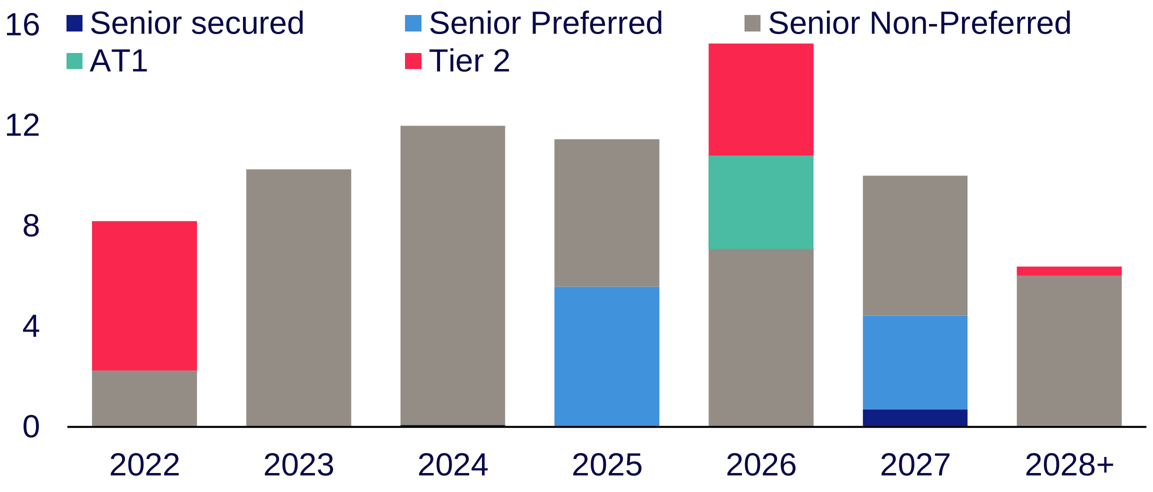


Funding needs driven by refinancing

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 issued DKK 2.5bn of senior non-preferred as private placements and DKK 3.7bn of senior preferred in the H1/2022
- In addition to the issuance of covered bonds, Nykredit expects to issue DKK 5-10bn in the remaining part of 2022
- We are conducting the quarterly refinancing auctions of shorter dated covered bonds of approx. 36bn in total this week

Nykredit Group maturity* profile, DKKbn



* For capital instruments first call date. Covered bonds are not included.

Summary and guidance

Result and Income from business	■ Continued growth in lending and Wealth Management drives up NII, NFI and Wealth Management Income by 7% ■ Negative market development drives down income from Trading, investment portfolio and derivatives
Growth in business volumes	■ We continue to see strong 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	■ Increase in wages and performance bonus drive costs higher ■ Also increasing costs to compliance, etc
Impairments and covid-19	■ Credit quality remains strong reflected in a net write back of impairment charges ■ The initial reservations for covid-19 have been reduced by 1.2bn and replaced by provisions of 1.4bn reflecting increased risk related to geopolitical uncertainty
Capital	■ CET1 ratio of 19.8% ■ Capital policy target of 15-16% CET1 – excess capital is related to the future impact of Basel IV
Guidance for 2022	■ Guidance for business profit and result before tax for 2022 of DKK 8.5 – 9.5bn

Appendix

Q1 vs. Q2: Financial market headwind drives income down 18%

Higher core income but lower trading and investment income

- Overall income down 18% Q/Q
  - NII increased 2% on volume growth
  - Net Fee Income 23% higher driven by funding income and higher activity in our bank and mortgage business due to a high remortgaging activity
  - Wealth management income down 2%
  - Lower trading and investment portfolio income due to negative value adjustments on the portfolio of floating rate covered bond and lower value adjustments on strategic bank shares
- Costs are unchanged
- Impairment charges amounted to DKK -65m due to improved credit quality and high property values
- Business profit of DKK 1,771m compared with DKK 2,573 in Q1/2022
- Legacy derivatives recorded a gain of DKK 341m compared with 329m in Q1/2022 due to increasing interest rates
- Profit before tax of DKK 2,113m compared with DKK 2,902m in Q1/2022

Business results Q1/2022 vs Q2/2022

DKKm	Q1/2022	Q2/2022	Index
Income	3,959	3,253	82
- Net interest Income	2,546	2,606	102
- Net fee income	635	780	123
- Wealth management income	592	579	98
- Net interest from capitalisation	-138	-155	112
- Net interest income fr. customer benefit programmes	-81	-110	136
- Trading, investment portfolio and other income	406	-447	
Costs	1,548	1,547	100
Business profit before impairment charges	2,411	1,707	71
Impairment charges	-162	-65	40
Business profit	2,573	1,771	69
Legacy derivatives	329	341	104
Profit before tax	2,902	2,113	73
Tax	497	461	93
Profit	2,405	1,652	69

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