Nykredit

Nykredit Group

H1/2020 Earnings call

20/08/2020

Numbers relate to Nykredit Group

Agenda

1

Highlights of H1/2020

CEO Michael Rasmussen

2

Financial performance, credit and funding plans

CFO David Hellemann

3

Q&A

Highlights of a H1/2020 impacted by covid-19

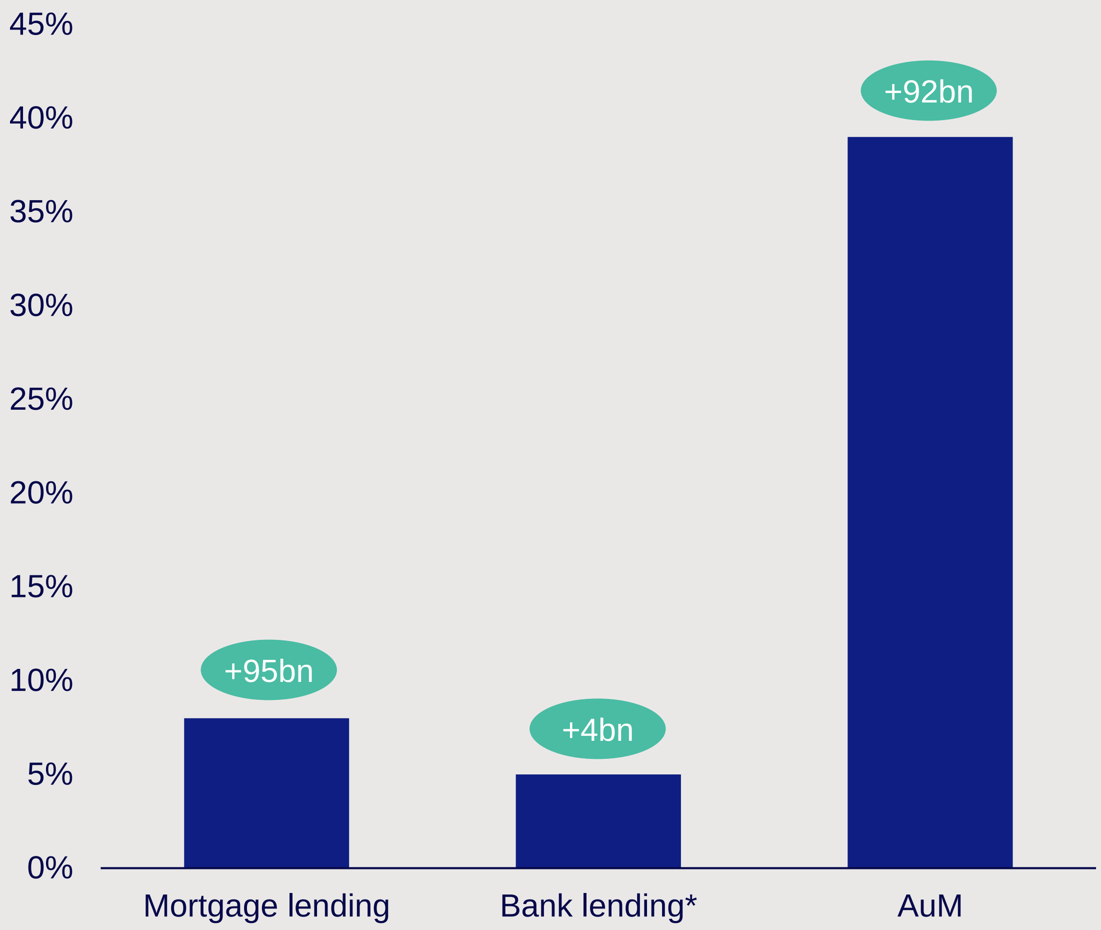
- Business profit of DKK 1.9bn compared to DKK 4.6bn in H1/2019
  Guidance for full year business profit revised up by 1.5bn to DKK 4 to 5bn
- NII, NFI and Wealth Management Income grew by 8% in total compared to H1/2019
- Trading and investment portfolio income of DKK (189)m as market turmoil in relation to covid-19 impacted derivatives, credit spreads and bank shares
- Inclusion of Sparinvest and LR Realkredit, Shared Valuation and compliance resulted in higher costs compared to last year. Unchanged costs in Q2 vs. Q1
- Impairment charges of DKK 1,755m vs. 433m last year driven by covid-19
  Underlying provisions for H1/2020 remain low at DKK 206m
- Continued loan growth in both mortgages and banking
- Dividends for 2019 has been cancelled in accordance with Danish FSA recommendations

Growth in business volumes

Growth in all business areas since H1/2019

- Mortgage lending has been growing driven by significant remortgaging activity and acquisition of LR Realkredit
- Strong growth in bank lending – especially in Q1/2020 as large business customers utilised existing credit lines
- Markets shares are increasing for both bank and mortgage lending
- Credit standards maintained in face of both growth and covid-19 crisis
- Wealth Management is growing organically but AuM impacted by negative value adjustments during H1/2020
- Volume growth and regulatory/technical changes push REA up 7%
- Higher REA reflected in lower CET1-ratio, but at 19.2% we are still well above capital targets

Growth in all business areas since H1/2019



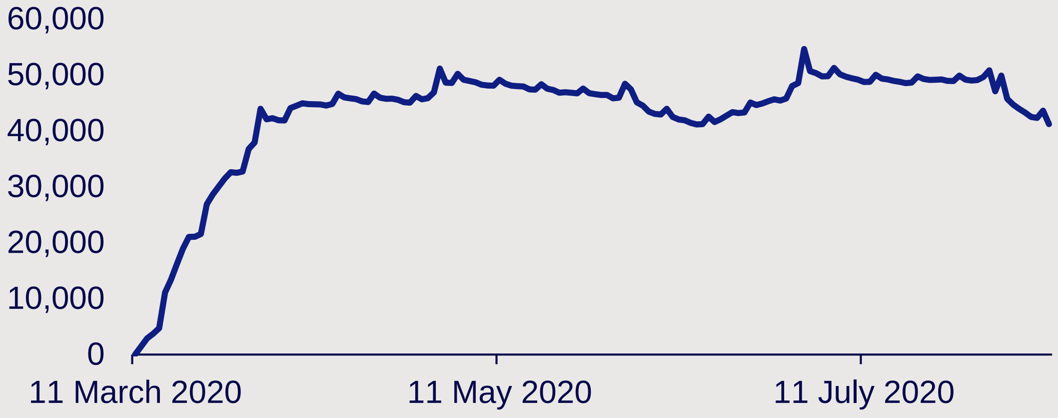
* Including Secured home loans transferred to Totalkredit

Covid-19 support measures offset effect of higher unemployment

We see few signs of financial stress for our customers

- Unemployment is receding after a spike during the spring and summer
- Rapid decline in number of persons sent home under government wage compensation schemes (furlough) which ends 31 August
  - Peaked at some 250,000 persons
  - 14,000 at the latest count
- Overall neither households or commercial customers has so far shown signs of financial stress
- Muted demand for temporary credit facilities

Covid-19 related increase in unemployment



Source: MacroBond

Muted demand for credit to customers affected by covid-19

Offers to retail customers

Credit facility: 0% interest and no underwriting fee

Overdrafts: No commission

Payment holidays: Available on bank loans, bank mortgage loans and personal loans for up to 6 months

96% approval rate

<500 applications

Offers to commercial customers

Payroll finance: Both bridge financing of government salary compensation and the remaining salary
No underwriting fee and low interest rate

Credit facility: No underwriting fee

Payment holidays: On bank loans and leasing contracts

Bridge financing of VAT: Up to DKK 5m
0% interest and no commission

99% approval rate

<400 applications

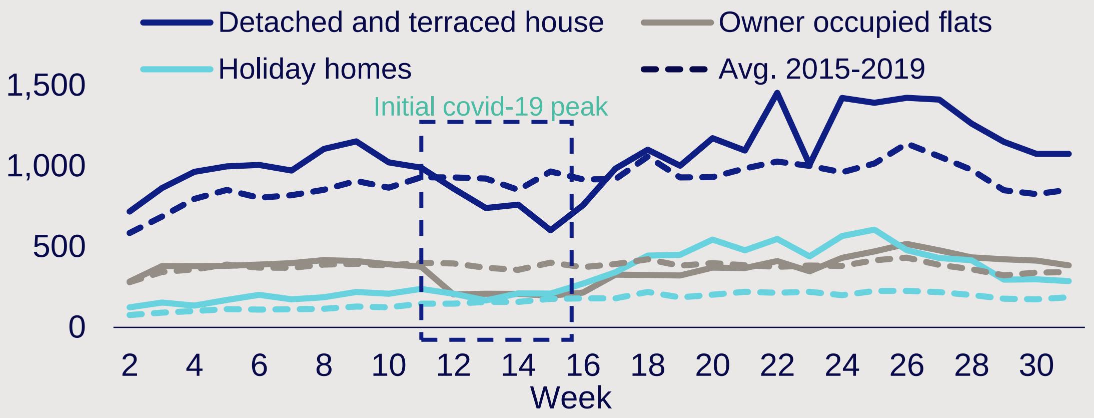
Approx. DKK 5bn disbursed in total

Strong rebound in housing market after covid-19 induced weakness

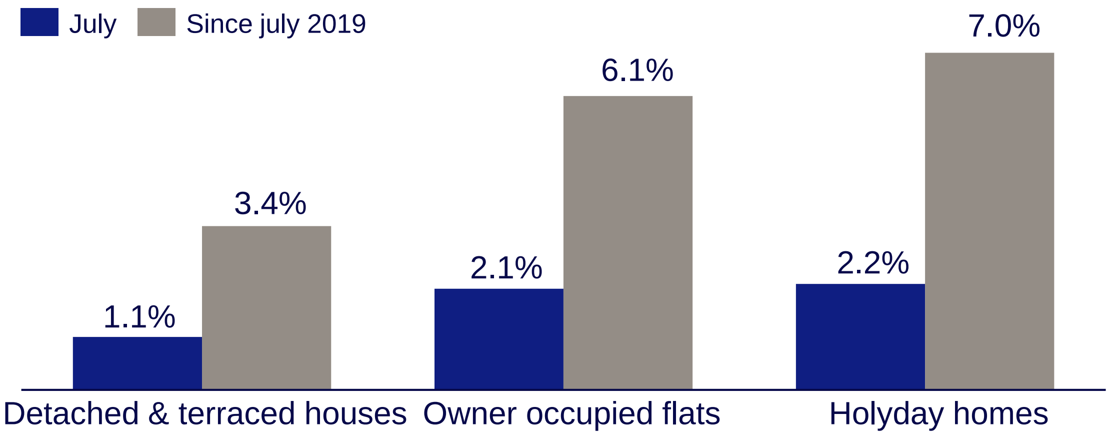
The property market has proven robust

- Lock down of Danish society from 11 March reduced turnover by approx. 50%
- From late April we saw a strong rebound to a level well above 5 year average
- New supply of properties for sale has been lower than usual…
- …leading to price increases

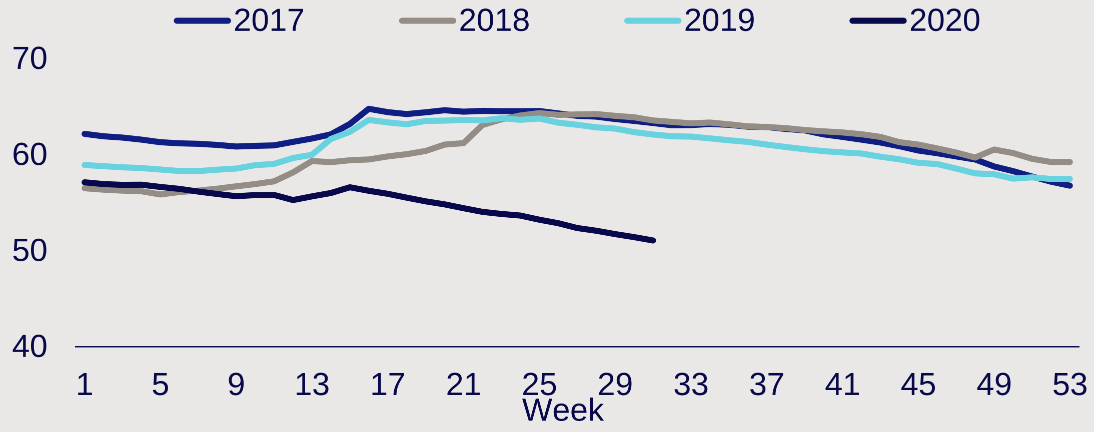
Property sales per week



Property prices are increasing



Number of properties for sale, 1,000s



Source: Boligsiden

Nykredit

Summary and guidance

Income from business	■ NII up 5% over all and 14% in Nykredit Bank ■ NFI slightly down compared to a very strong H1/2019 ■ Income from Trading, investment portfolio and derivatives largely recovered from Q1 losses to contribute a loss of DKK 189m
Costs	■ Cost higher compared to H1/2019 due mainly to acquisitions. Also higher compliance costs ■ Cost:Income ratio of 43.9% in H1
Impairments	■ DKK 1,549m impairment charge related to covid-19 is to a large extent management judgement, as customers have not yet exhibited signs of weakness ■ Underlying impairment charges in H1 amounted to DKK 206m
Growth in business volumes	■ Satisfactory volume growth in both mortgage lending and bank lending
Capital and guidance	■ Nykredit has very strong capitalisation with CET1 of 19.2% ■ No dividend paid in 2020 as per Danish FSA recommendation to all Danish banks ■ We have upgraded our guidance for business profit for 2020 to DKK 4 – 5bn

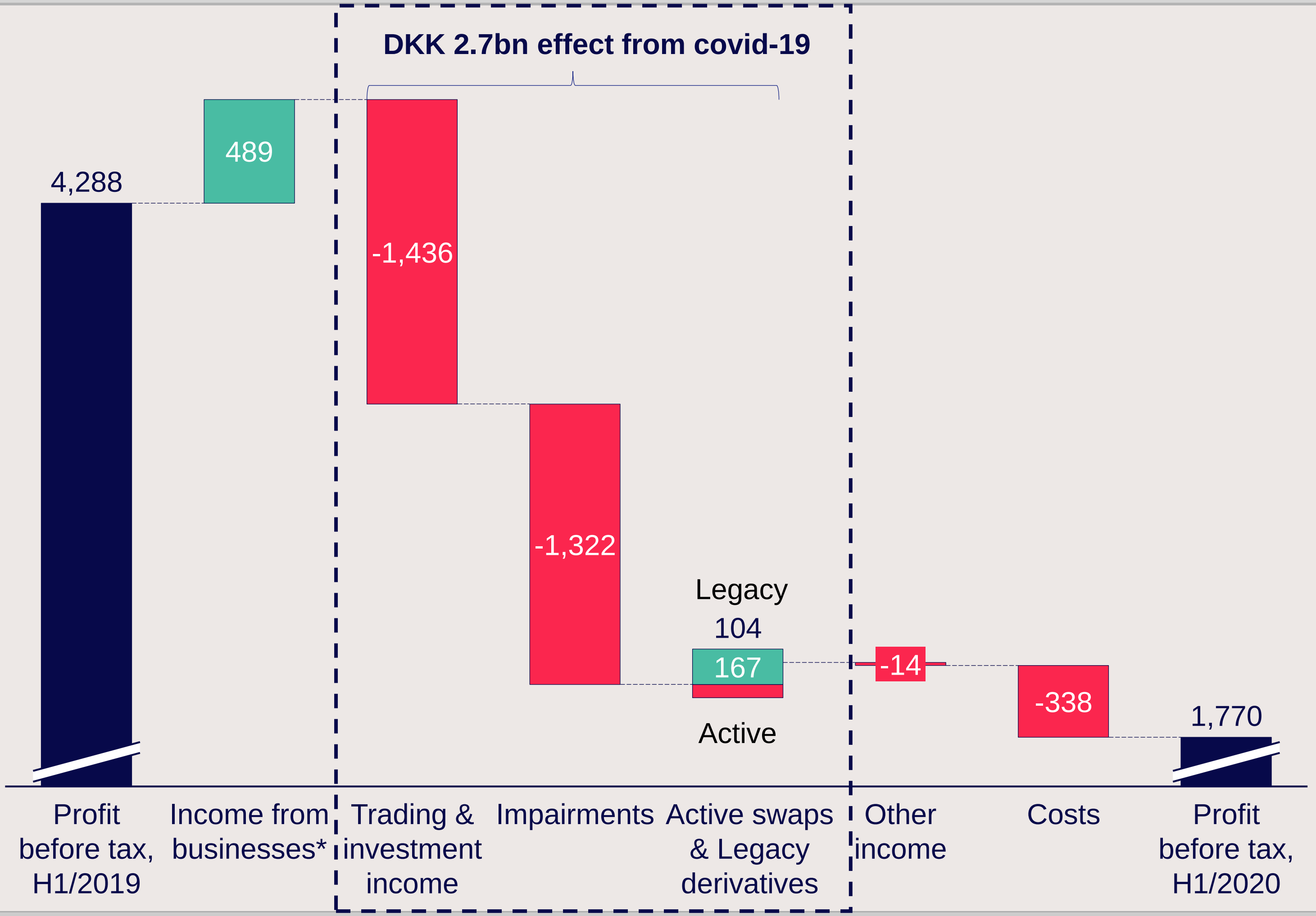
Financial performance, credit and funding

CFO David Hellemann

Group income statement – H1/2020 vs H1/2019

DKKm	H1/2019	H1/2020	Change	
Net Interest Income	4,592	4,832	+5%	Driven higher by volume growth especially in Nykredit Bank (+14%) – and implementation of negative deposit rates
Net Fee Income	1,155	1,136	-2%	Remortgaging activity still high, although lower than last year
Wealth Management Income	719	987	+37%	Positive effect of Sparinvest integration. AuM lower in H1 due to value adjustments
Customer benefits & capitalisation costs	(275)	(295)	+7%	Increase due to ramp up of bail-inable debt
Trading and Investment portfolio	1,301	(189)	-	Market recovery in latter part of H1/2020, but bank shares still significantly lower than last year
Costs	2,502	2,841	+14%	The main drivers of higher costs are the acquisition of Sparinvest and Shared Valuation, as well as investments in compliance
Impairment charges	433	1,755	+305%	Primarily impairment charges related to covid-19 (DKK 1.549m). Ordinary impairments remain low
Business profit	**4,557**	**1,875**	**-59%**	**Rebound from a DKK 0.8bn loss in Q1**
Legacy derivatives	(269)	(103)	+62%	Value adjustment driven by slightly higher credit and funding spreads
Profit before tax	**4,288**	**1,770**	**-59%**	**Covid-19 related credit impairments the main driver along with lower trading and investment portfolio income**

H1/2020 result was significantly affected by covid-19 effects



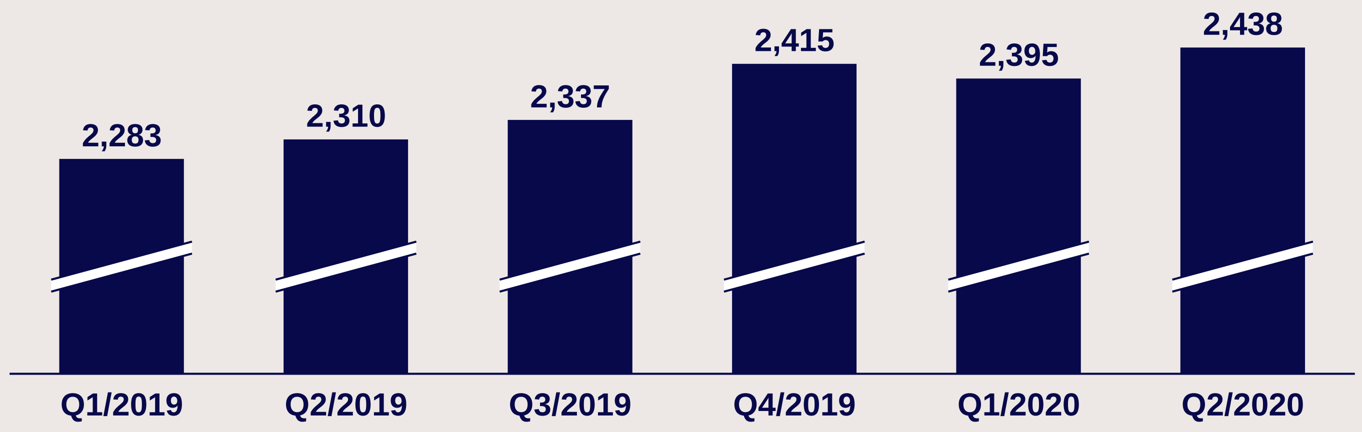
- H1/2020 result is significantly impacted by market turmoil and large impairments due to Covid-19
- NII, NFI and Wealth Management income up DKK 489m
- Trading and investment portfolio income of DKK (189)m – DKK 1,436m lower than last year driven by:
  - Lower prices for bank equities
  - Spread widening on credit and covered bonds
- Covid-19 related impairments of DKK 1,549m
- Legacy derivatives up DKK 167m compared to H1/2019 due to expired interest rate derivatives
- Increasing costs due to acquisition of Sparinvest, compliance and Shared Valuation

*Interest, fee-, and Wealth Management income

Growing NII and normalization of NFI

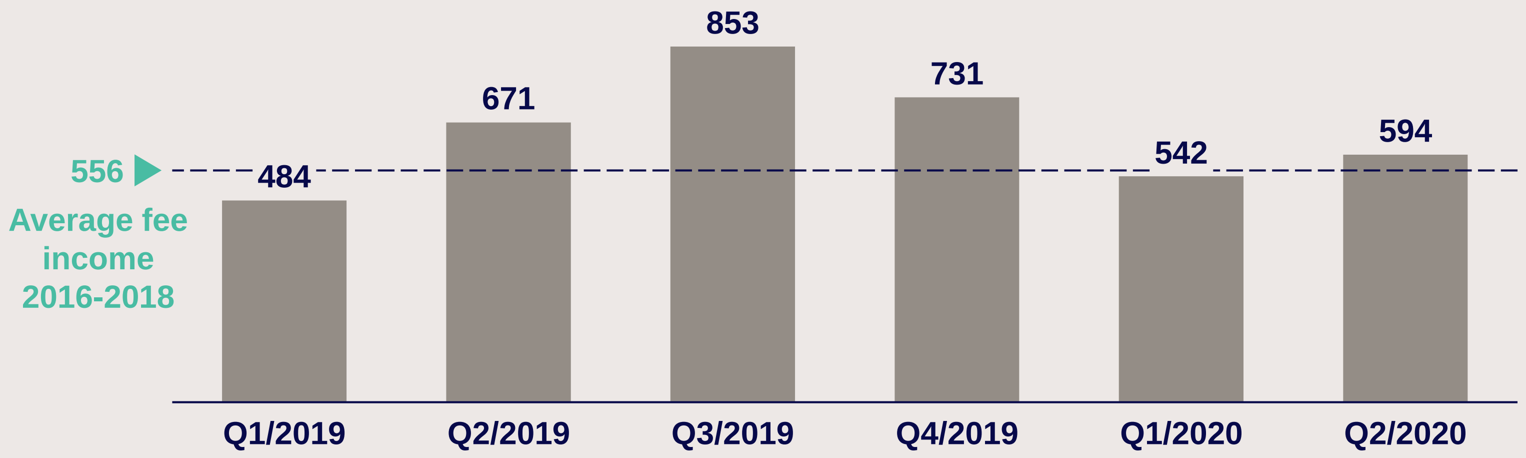
Net Interest Income, DKKm

- Up 5% Y/Y due to volume growth and adjustment of negative deposit rates



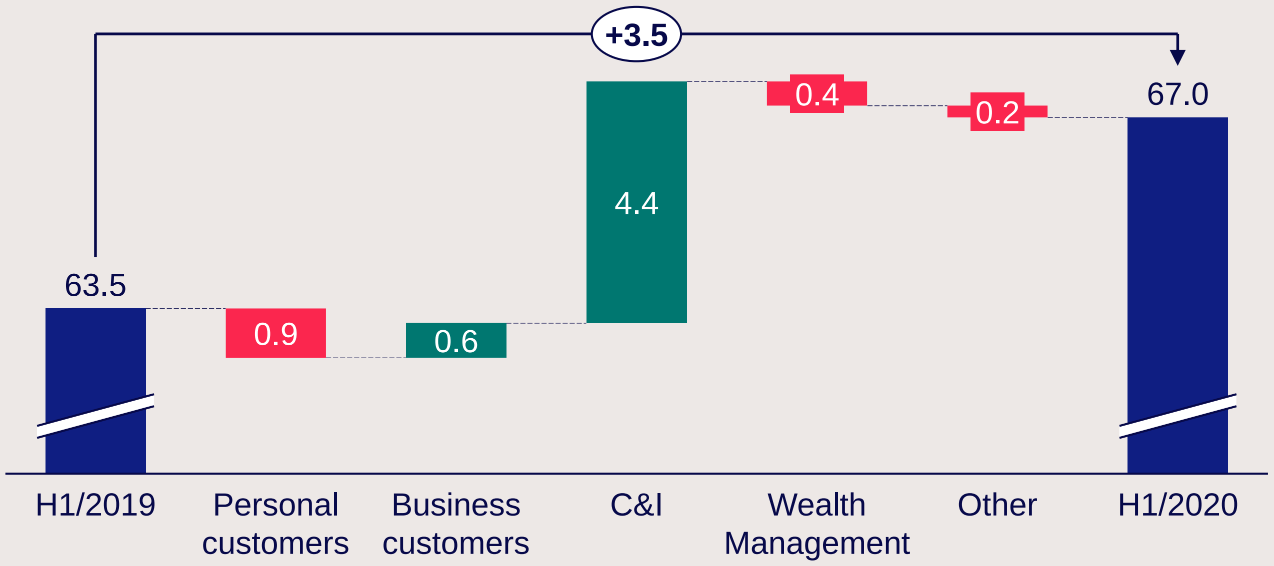
Net Fee Income, DKKm

- Down compared to a very strong 2019 as remortgaging activity slowed down
- Still above average for 2016 - 2018



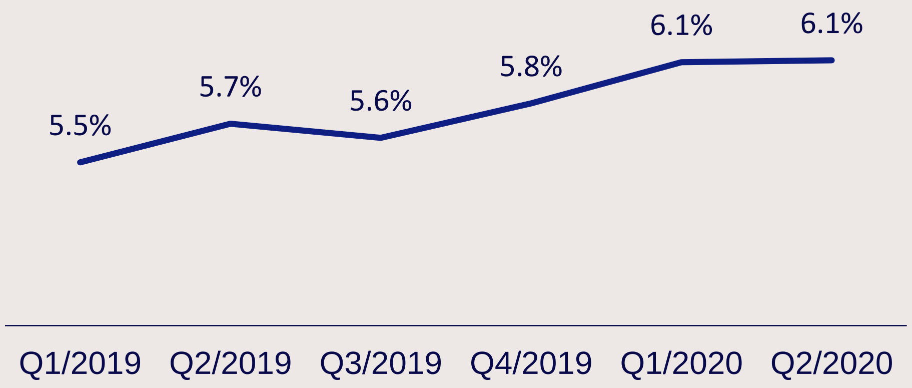
We are strengthening our market position in the C&I segment

Bank lending, DKKbn



- Lending has increased DKK 3.5bn or 5% since last year
- Strong lending growth for C&I customers with high ratings
- Declining lending in Q2 following surge in utilisation of credit facilities in Q1 related to covid-19 turmoil

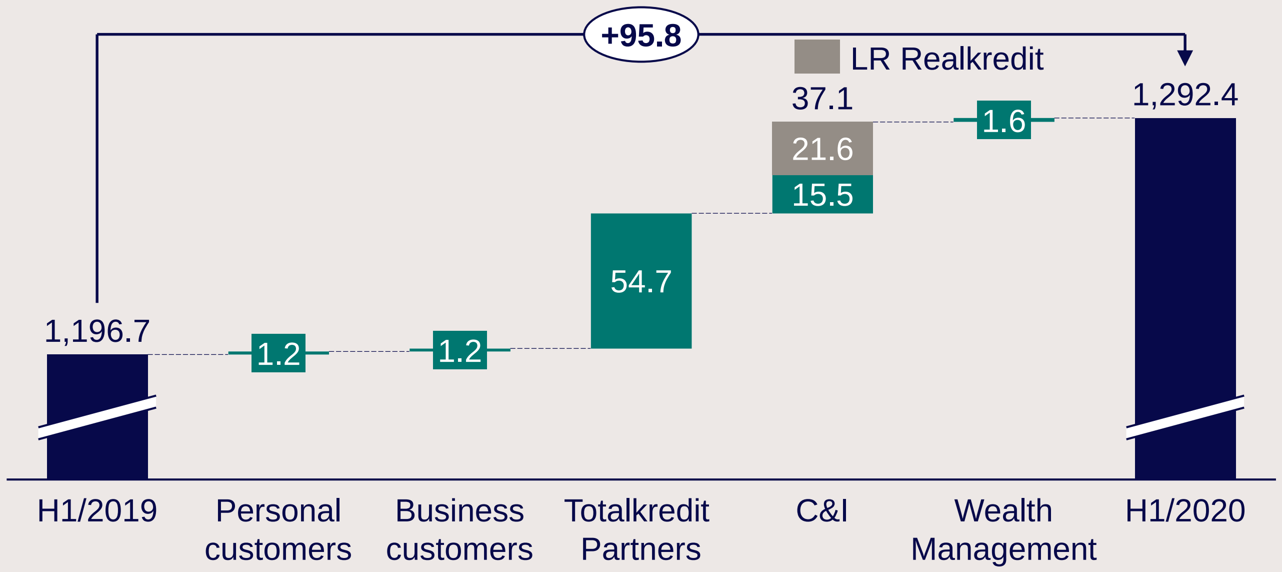
We have maintained our market share



- Slightly increased market share despite a decline in Nykredit's bank lending in Q2

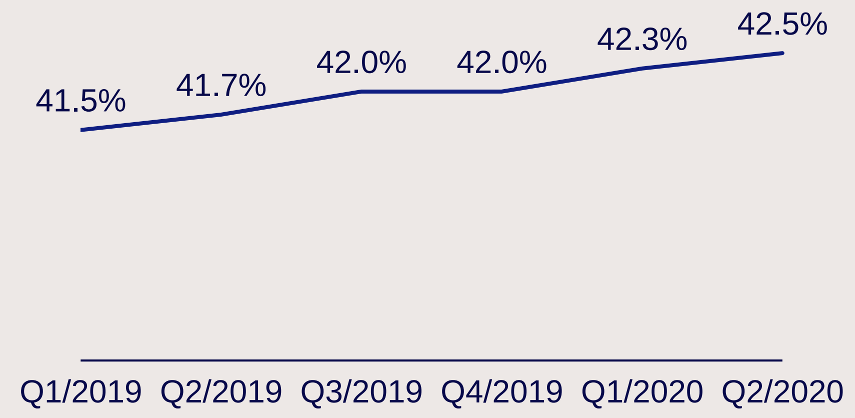
Continuous growth in mortgage lending

Mortgage lending, DKKbn



- Lending has increased by DKK 96bn or 8% since last year
  - Of which DKK 22bn relates to acquisition of LR Realkredit (C&I)
  - Growth in H1/2020 amounted to DKK 32bn
- The main driver of growth remains Totalkredit with DKK 55bn
- Nykredit and Totalkredit partner banks keep gaining market share

Growing mortgage market share

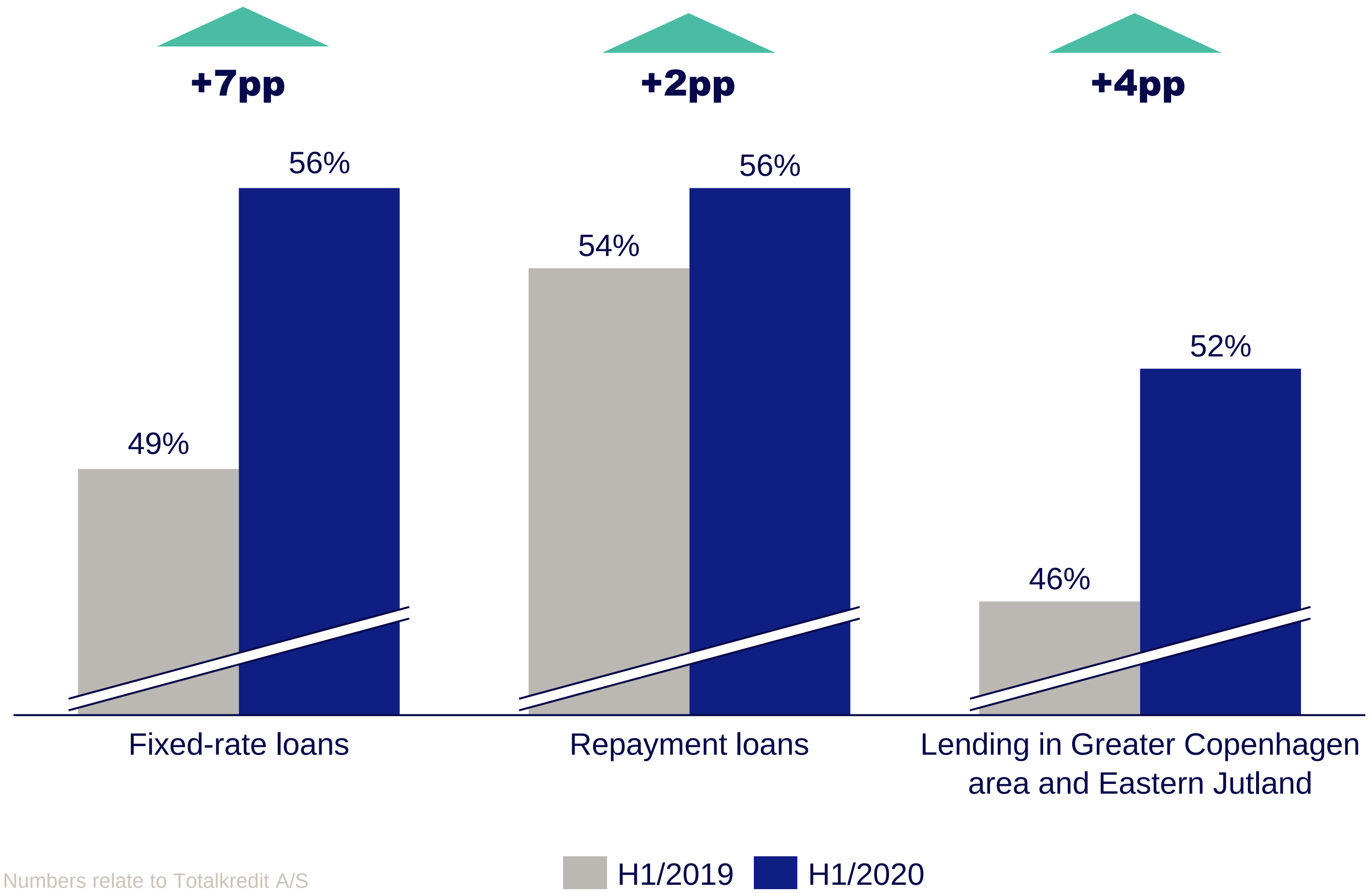


- Mortgage lending markets shares increase due to growth in lending to both personal and business customers

Incl. Secured home loans from Totalkredit Partners

A more robust mortgage portfolio

Positive trend in retail mortgage portfolio* metrics

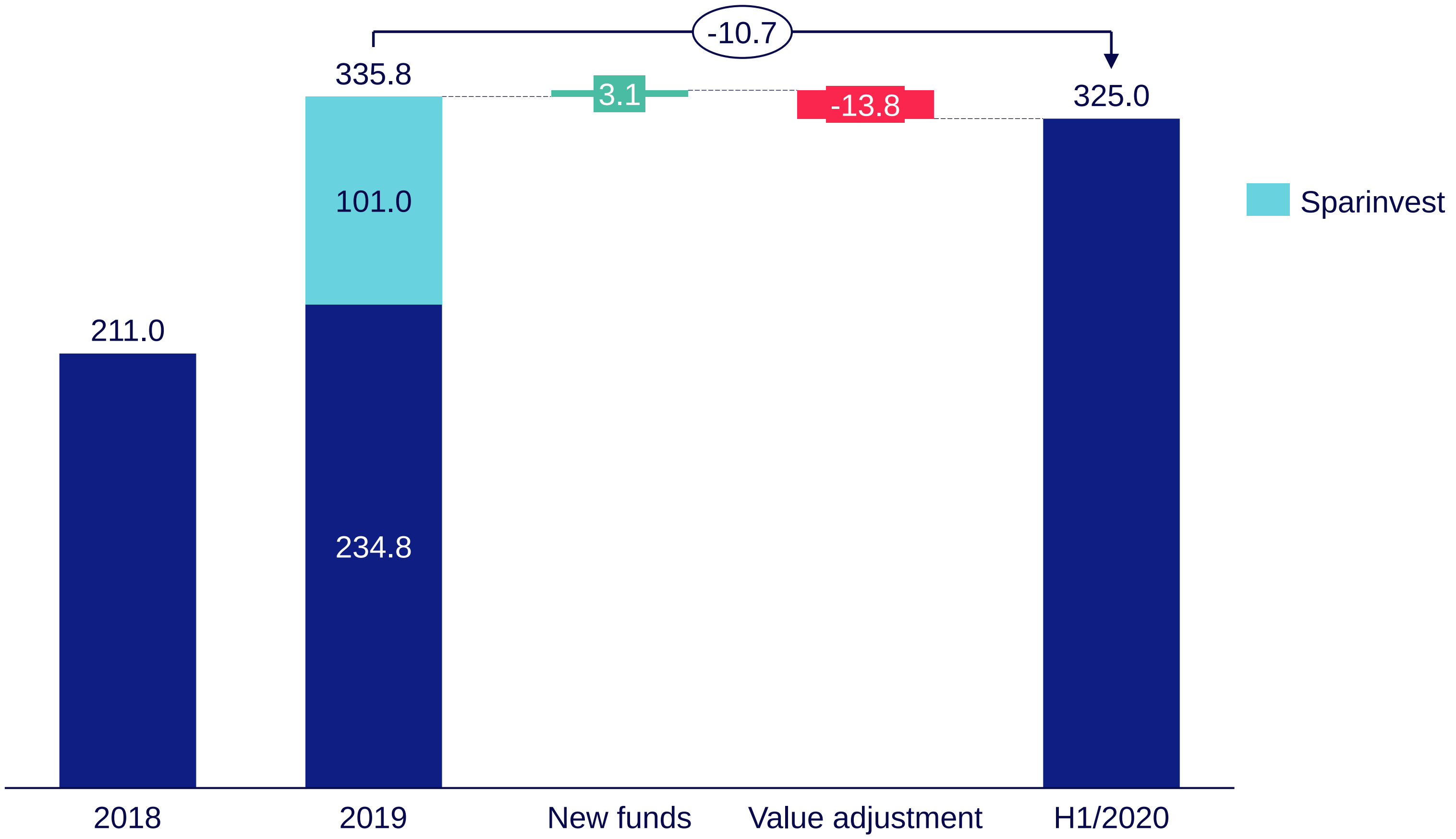


* Numbers relate to Totalkredit A/S

- Loan growth and remortgaging have made the portfolio more balanced and hence improved resilience
- Loan growth primarily in the Greater Copenhagen area and Eastern Jutland (Aarhus)
- Fixed rate loans and repayment loans now accounts for more than 50% of the portfolio in all geographical regions
- New customers have slightly better credit quality than existing stock
- Reduced credit and refinancing risks for Nykredit and lower churn

Assets under management have partly recovered in Q2

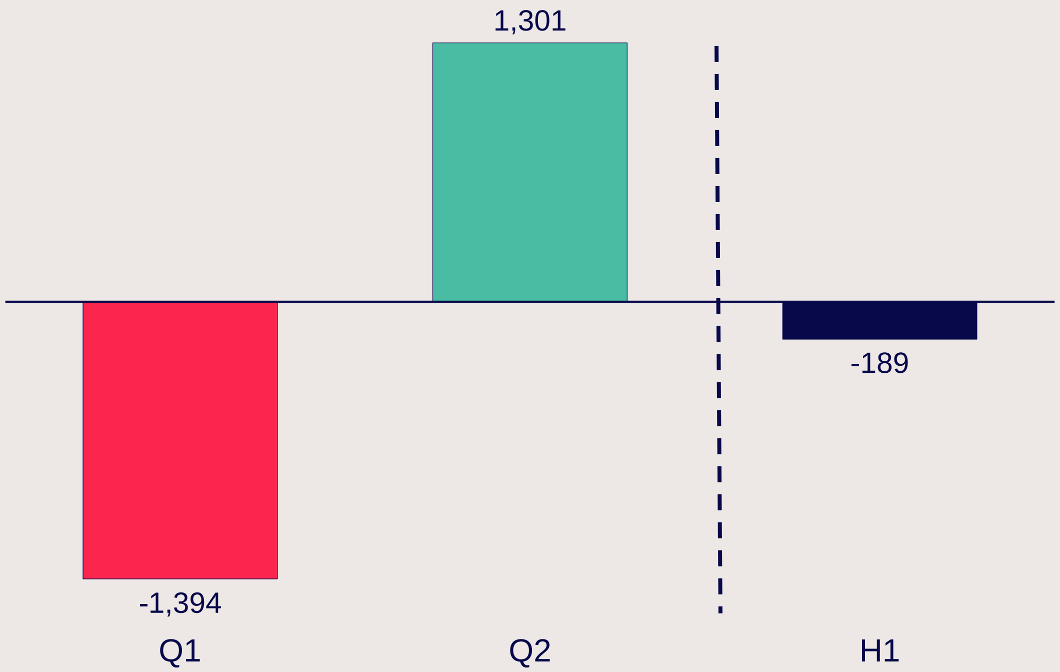
Assets under Management, DKKbn



- Large negative value adjustments in Q1 due to covid-19 related market turmoil…
- …largely reversed in Q2
- All in all AuM down DKK 11bn in H1 despite an increase of DKK 19bn in Q2
- Positive inflow of funds in both quarters

Wide fluctuations in investment portfolio income due to market volatility

Trading and investment portfolio income 2020, DKKm

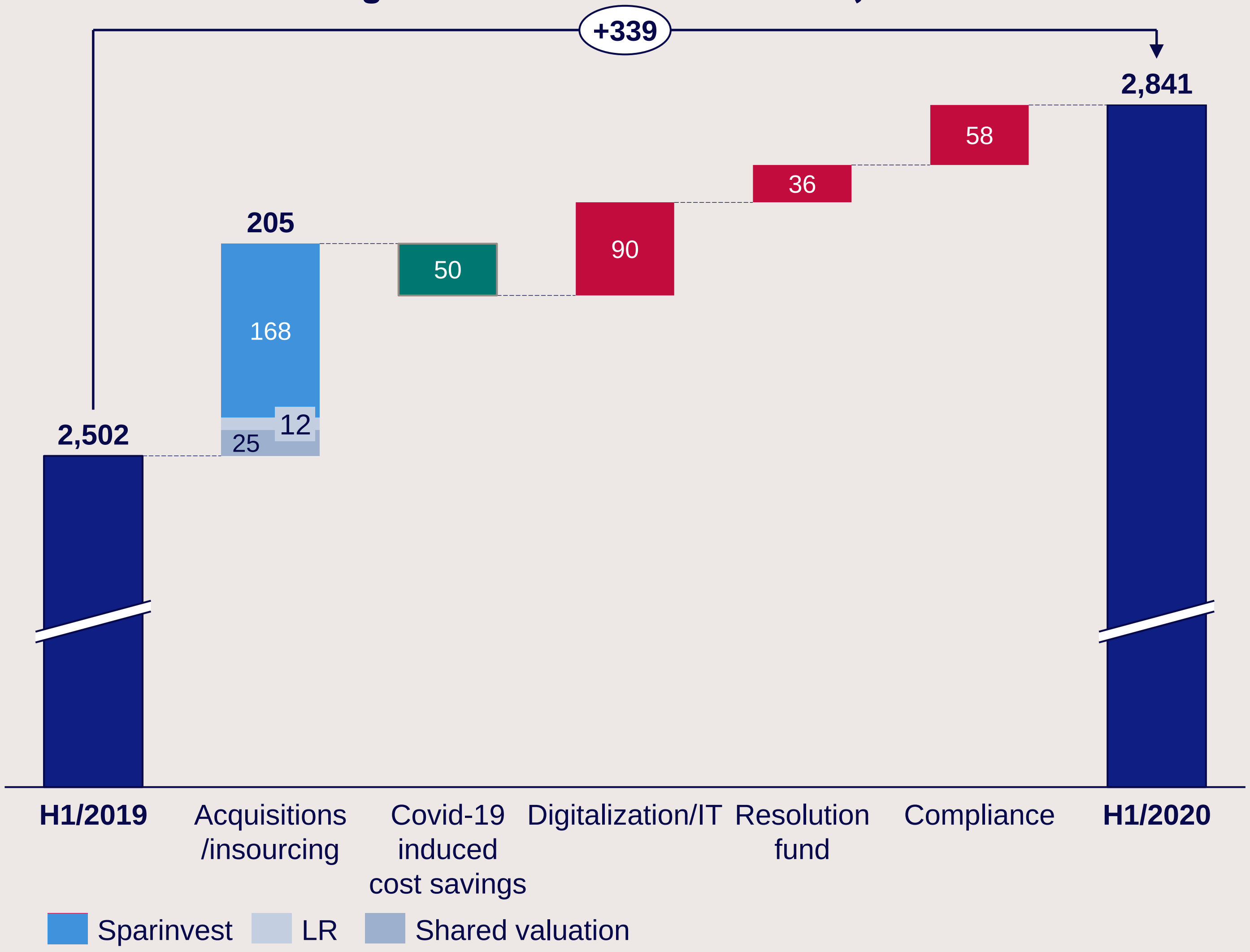


- Investment portfolio income of DKK (189)m in H1/2020
- Financial markets recovered somewhat during Q2
- Q2 investment portfolio performance was driven by
  - Higher prices for bank equities
  - Spread tightening on credit and covered bonds

Cost development

- Main drivers of higher costs
  - Acquisition of Sparinvest and LR Realkredit
  - Implementation of Shared Valuation
- Costs also driven higher by compliance and IT

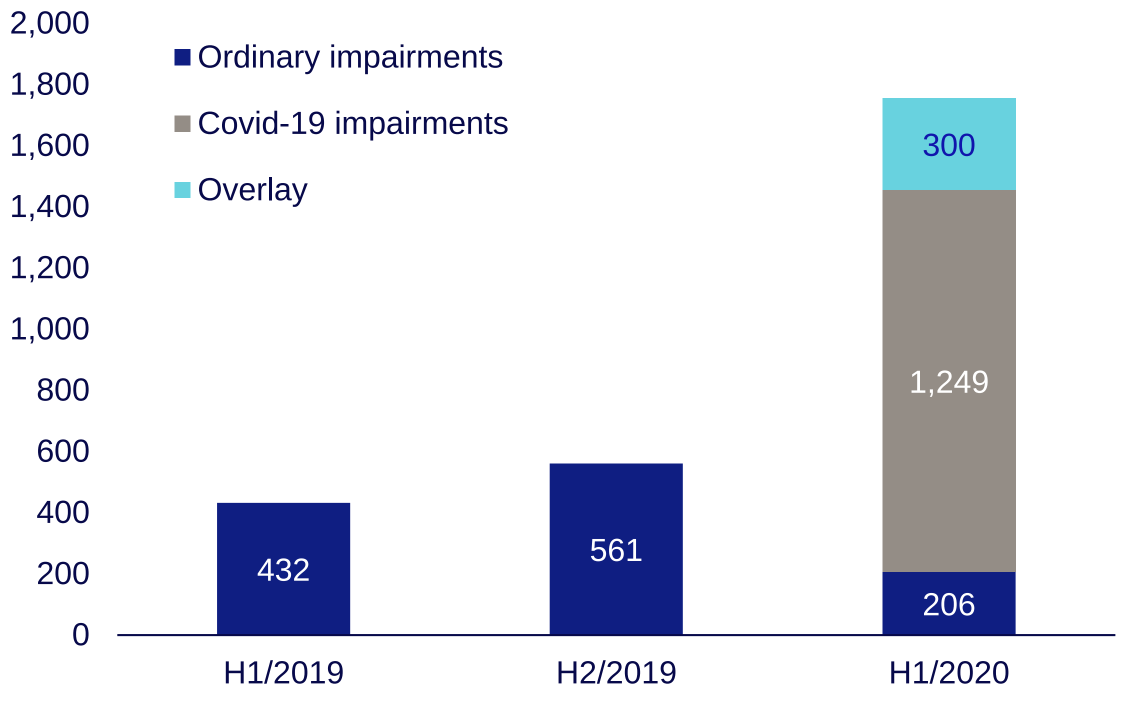
Change in costs H1/2019 vs H1/2020, DKKm



Impairment charges increase due to expected covid-19 impact

- Underlying impairment charges remain low at DKK 206m in H1
- The covid-19 pandemic has increased impairment charges significantly in 2020
  - Covid-19 impairment charge of DKK 1,549m in H1
  - Primarily related to business mortgage exposures
- We have not yet seen loan losses related to covid-19

Impairments driven by covid-19, DKKm



Basis for covid-19 related impairments

- Pandemic related impairments of DKK 1,249m are based on three factors:

  1. Stressed model simulations for industries most impacted by the covid-19 outbreak

  2. Property values of customers at Stage 3 have been stressed to simulate a reduction in collateral values

  3. Macroeconomic scenarios of the model have been updated to allow for the covid-19 impact, including mitigating aid packages

     Nykredit assigns a 80% probability to the main scenario, which is also the adverse scenario
     A 20% probability is assigned to current economic situation

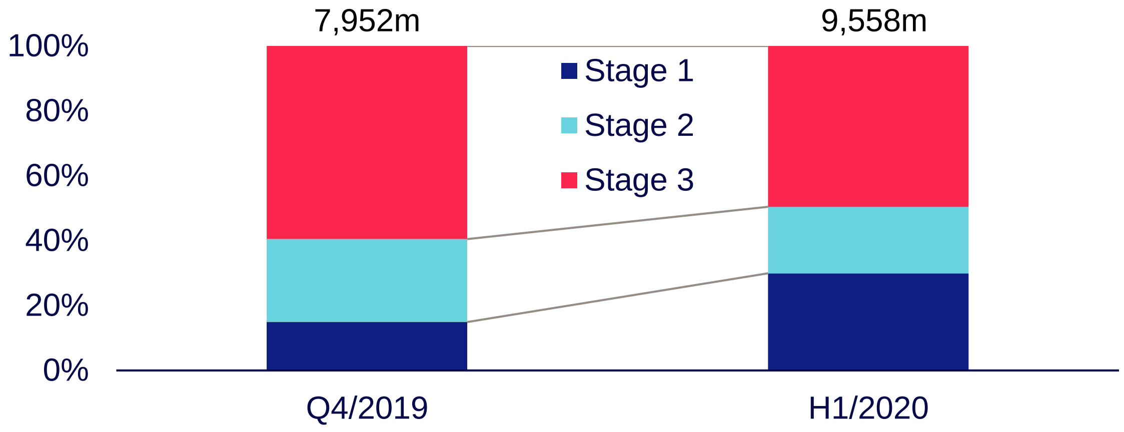
- In addition an impairment charge of DKK 300m has been added as a management overlay to reflect uncertainty in model assumptions

- Covid-19 impairments are added to Stage 1
  Stage 2 amount broadly stable and Stage 3 unchanged since year-end

Macro economic assumptions for main scenario (80% prob.)

Per cent	2018	2019	2020e	2021e	2022e
Short interest rate	-0.3	-0.4	-0.2	-0.4	-0.2
Long interest rate	0.4	-0.2	-0.4	-0.2	0.0
House prices	3.8	3.0	-3.9	0.3	5.3
GDP	2.4	2.4	-5.0	3.8	2.6
Unemployment rate	3.1	3.1	4.7	4.5	4.0

Development in IFRS 9 impairments by stage

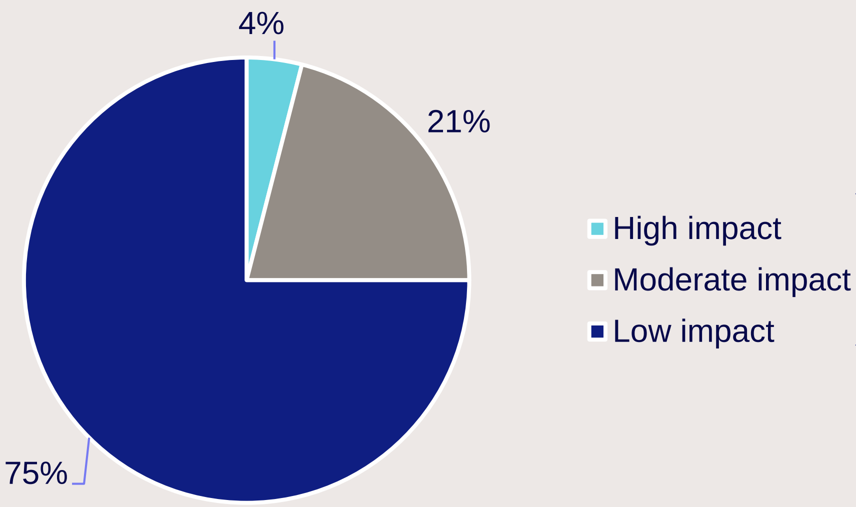


Loan portfolio risk and exposure to covid-19 impact

Limited exposure to industries with high sensitivity to effects of covid-19

- 5% of total lending is to industries that are deemed to have a high risk of being impacted by the pandemic
  - Approx. 2/3 of these loans are secured by a mortgage
  - Nykredit has virtually no exposure to oil/gas and airlines

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



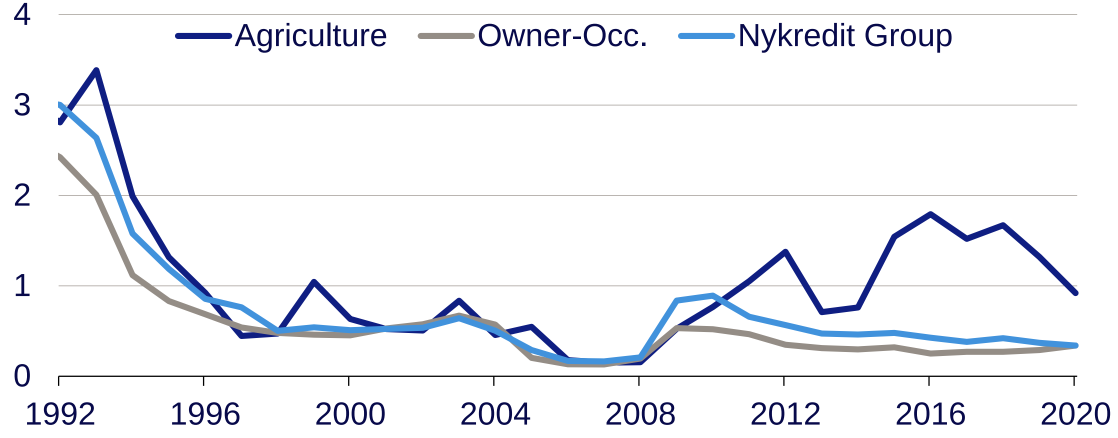
DKKm	Exposure	Of which mortgage	Impairments
Accomodation & food services	4,498	87%	13
Retail trade	6,210	70%	11
Transportation	6,926	38%	11
Construction	23,845	57%	76
Production	31,748	64%	46
Coop housing	41,167	86%	113
Residential rental	205,590	91%	375
Outside Denmark	81,734	82%	78
Agriculture	82,376	96%	91
Households	826,198	97%	247
Public housing	1,586	66%	2
Financial institutions	55,217	6%	14
Education	12,285	86%	7
Other	212,136	-	64
Cyclically related impairments			400
Total	1,592,515	77%	1,549

Overall credit quality is robust but covid-19 will impact many sectors

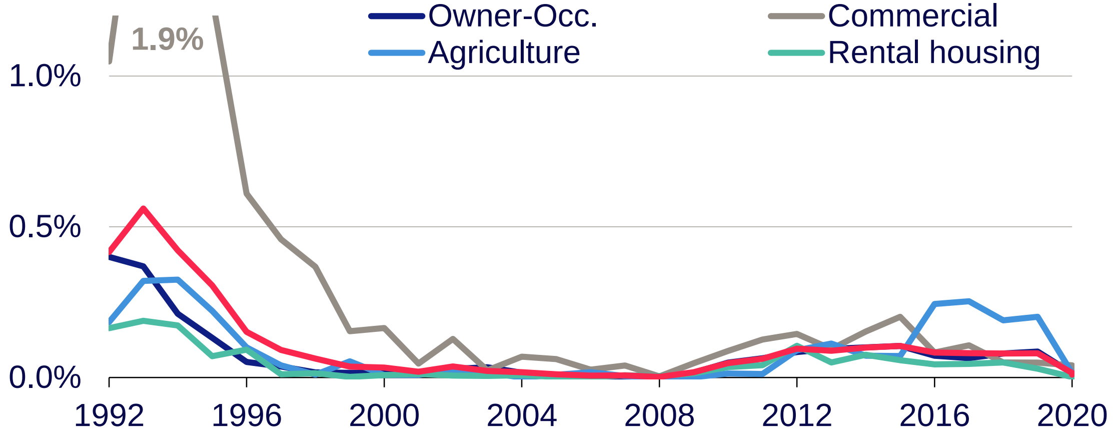
Credit quality

- Estimates of potential GDP decline due to covid-19 vary considerably reflecting limited visibility
- Unemployment and property prices are key drivers of credit risk for Nykredit
    - Level of unemployment and duration of lock down is as yet unknown
    - The Danish property market has previously tended to be resilient to short term declines in the business cycle
- Danish households are more robust than prior to the global financial crisis
- Agriculture is in a relatively comfortable position
- Nykredit has virtually no exposure to oil/gas, shipping and airlines

75-day mortgage arrears to latest term, %



Mortgage lending: Write-offs as a per cent of debt



Source: Nykredit company reports and Fact Book

Ongoing upward pressure on REA

The starting point

- REA increases DKK 26bn or 7% in Q2 due to market turmoil in Q1 and phase-in of regulatory changes to IRB-models

Regulatory development

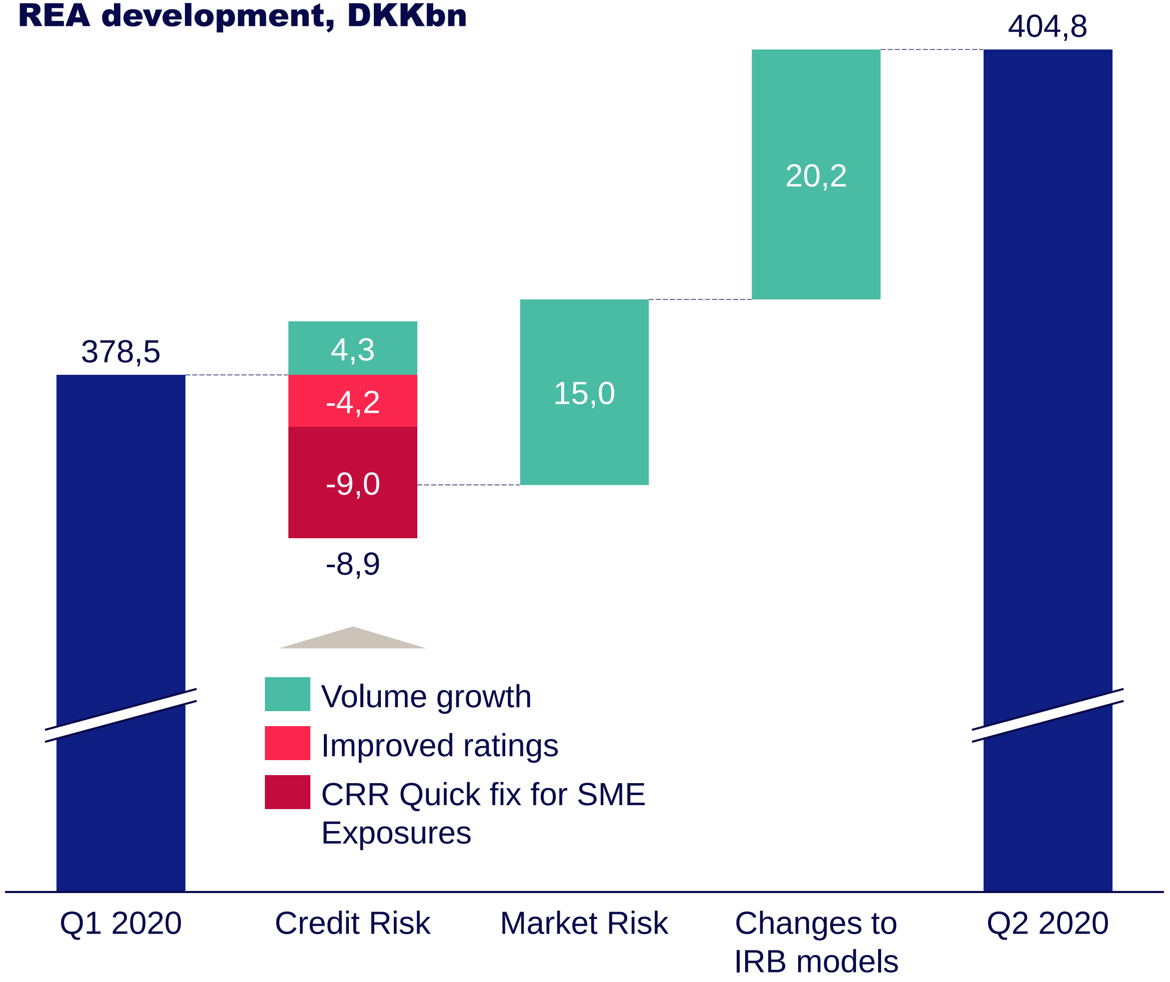
- Phase-in of further regulatory changes to IRB-models are expected to increase REA over time

Covid-19 related credit risk

- In the medium turn covid-19 is expected to weaken some customers leading to higher REA

These factors are estimated to gradually increase REA by some 5 – 15% over the coming 2 years

REA development, DKKbn



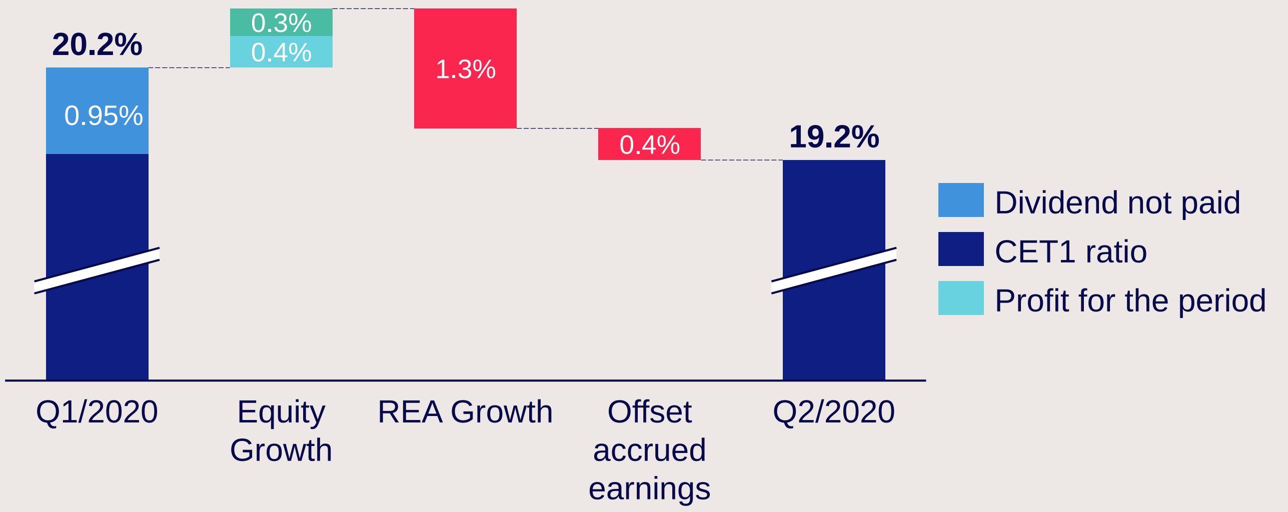
Strong capitalisation

Capital highlights

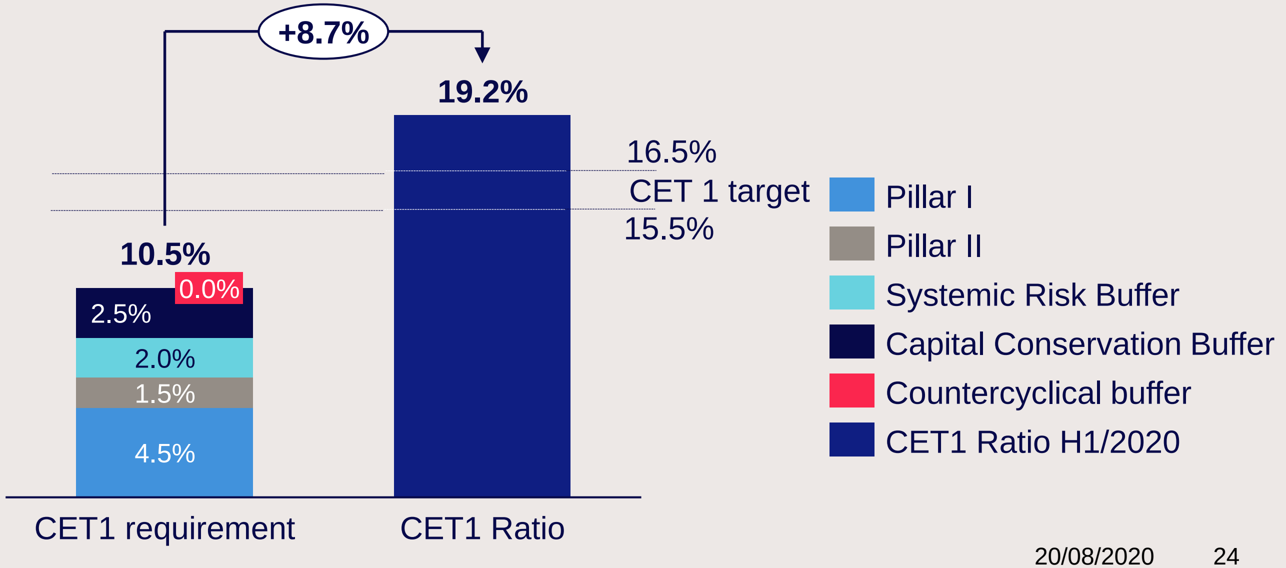
- Dividends of DKK 3.6bn for 2019 has been cancelled adding 95 bps. of CET1 in H1
- CET1 ratio decreased in Q2 driven by an increase in REA

  Profit for the period has not been added to CET1 as results have not been audited
- Significant buffer of 8.7%-points to capital requirements
- CET1 ratio amounts to 19.2% - some 300 bps above Nykredit's capital policy target

CET1 capital ratio, Q1/2020 to Q2/2020



CET1 capital position and requirement



Funding plans and ratings

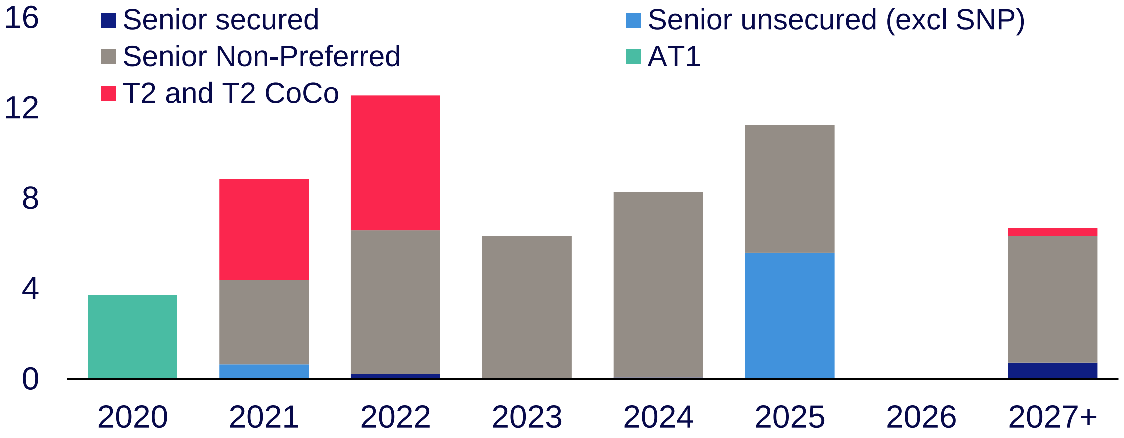
Funding plans

- New long dated on-the-run callable bonds will take over issuance for the next 3 years from 1 September (i.e 2053 maturity takes over from 2050)
- Quarterly refinancing auctions of DKK 34bn in covered bonds from 17 to 21 August
- Nykredit will increase the amount of bail-inable liabilities from currently DKK 134bn to 135-145bn by end-2021
  - DKK 13bn has been issued in H1 in senior format
- Nykredit expects to issue approx. DKK 5bn during the remainder of 2020

Rating development

- On 19 June Fitch revised the outlook to “Stable” for Nykredit’s “A” long-term rating
- The outlook revision after just 2½ months on negative outlook was motivated by:
  - Nykredit’s ability to absorb significant shocks in a downside scenario due to Nykredit’s strong capitalisation
  - Owners’ commitment to inject equity in case of stress

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+	BBB-

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

Summary and revised profit guidance for 2020

Satisfactory business development despite covid-19

- Satisfactory volume growth in both mortgage lending and bank lending
- NII up 5% over all and 14% in Nykredit Bank
- NFI slightly down compared to a very strong H1/2019
- Income from Trading, investment portfolio and derivatives largely recovered from Q1 losses to contribute a loss of DKK 189m
- Cost higher compared to H1/2019 due mainly to acquisitions. Also higher compliance costs
- DKK 1,549m impairment charge related to covid-19 is to a large extent management judgement, as customers have not yet exhibited signs of weakness
- Underlying impairment charges in H1 amounted to DKK 206m
- Profit before tax of DKK 1,770m
- In light of the recommendations from regulators Nykredit has not paid dividends in 2020 in relations to 2019
- CET1 ratio of 19.2% without including H1 profits and after 7% REA inflation in Q2

2020 guidance revised upwards

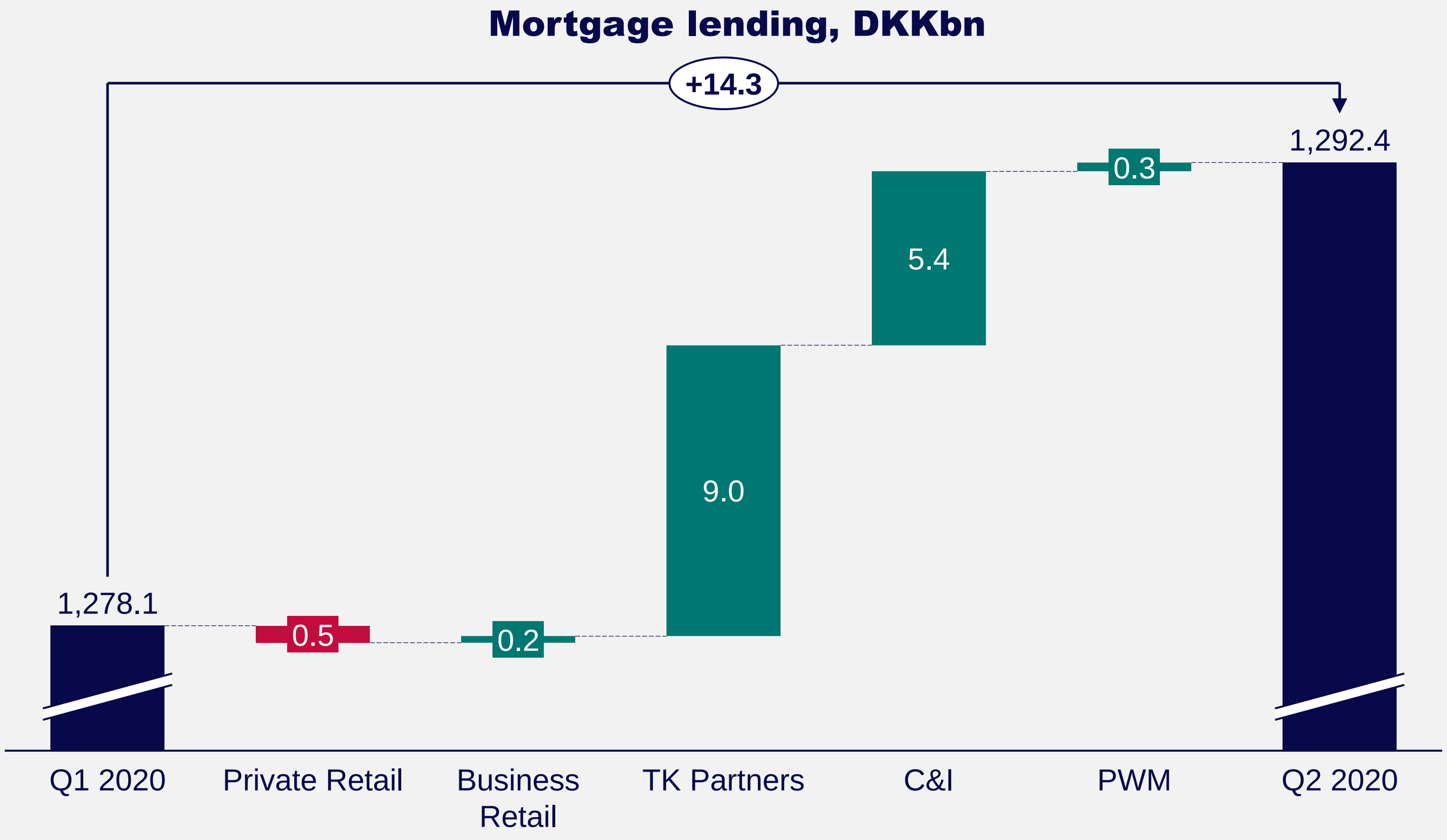
- Guidance for full-year business profit at the beginning of the year was in the range of DKK 6.25 - 6.75bn
- In light of the covid-19 pandemic, guidance was revised to DKK 2.5 - 3.5bn in May
- We upgrade our guidance for a business profit of DKK 4 – 5bn for 2020

Appendix

Group income statement – Q2/2020 vs Q2/2019

DKKm	Q2/2019	Q2/2020	Change	
Net Interest Income	2,310	2,438	+6%	Driven higher by volume growth, implementation of negative deposit rates for customers and reduced by shift in mortgage product mix
Net Fee Income	671	594	-12%	Normalization of remortgaging activity in H1/2020
Wealth Management Income	369	485	+31%	Positive effect of Sparinvest integration.
Customer benefits & capitalisation costs	(107)	(145)	-36%	Increase due to ramp up of bail-inable debt
Trading and Investment portfolio	623	1.205	+94%	Market recovery in Q2, but bank shares still significantly lower than last year
Costs	(1,273)	(1,421)	+12%	Addition of Sparinvest and Shared Valuation the main drivers as well as investment in compliance
Impairment charges	(213)	(443)	+107%	Mainly impairment charge related to covid-19. Ordinary impairments remain low
Business profit	**2,379**	**2,713**	**+14%**	
Legacy derivatives	(50)	318	-	Value adjustment driven by slightly higher credit and funding spreads and
Profit before tax	**2,329**	**3,031**	**30%**	**Covid-19 related credit impairments the main driver along with higher income from trading and investment portfolio**

Continued high growth in mortgage lending in Q2/2020

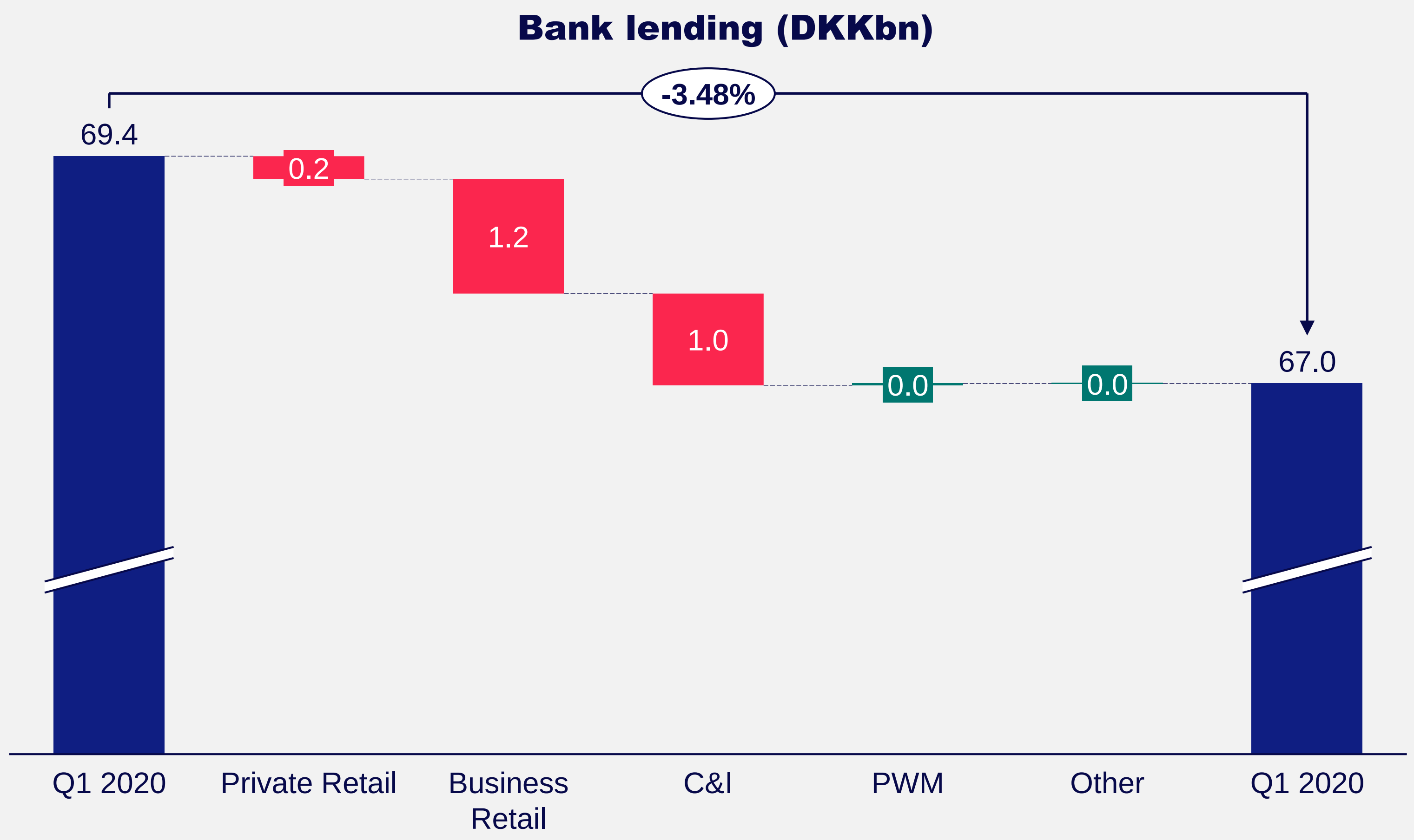


Continued growth

- Lending has increased DKK 14bn in Q2 2020
- The main driver of growth remains Totalkredit with DKK 9bn
- Nykredit and Totalkredit partner banks keep gaining market share

Incl. Secured home loans from Totalkredit Partners

Bank lending



- Drop in lending in Q2 due to lower draws on credit facilities following surge in credit facilities in Q1 related to Covid-19 turmoil.

Incl. Secured home loans in Nykredit Bank.

Q2 vs. Q1: Strong rebound

NII, NFI and Trading and investmnent income higher

- Significant rebound in income
  - NII up 2%
  - Net Fee Income 10% higher as remortaging is picking up again
  - Wealth management income down 3% on lower AuM
- Increase in share price of banks and credit spread tightening resulted in DKK 1,205m in Trading, investment portfolio and other income
- Costs flat compared to Q1 due to cost restraint in light of covid-19
- Impairment charges amounted to DKK 443m driven by the covid-19 pandemic
- Business profit of DKK 2,713m compared with DKK (838)m for Q1/2020
- Legacy derivatives recorded a positive value adjustment of DKK 318m as some contracts expired
- Profit before tax of DKK 3,029m compared with DKK (1,259)m in Q1/2020

Business results Q1/2020 vs Q2/2020

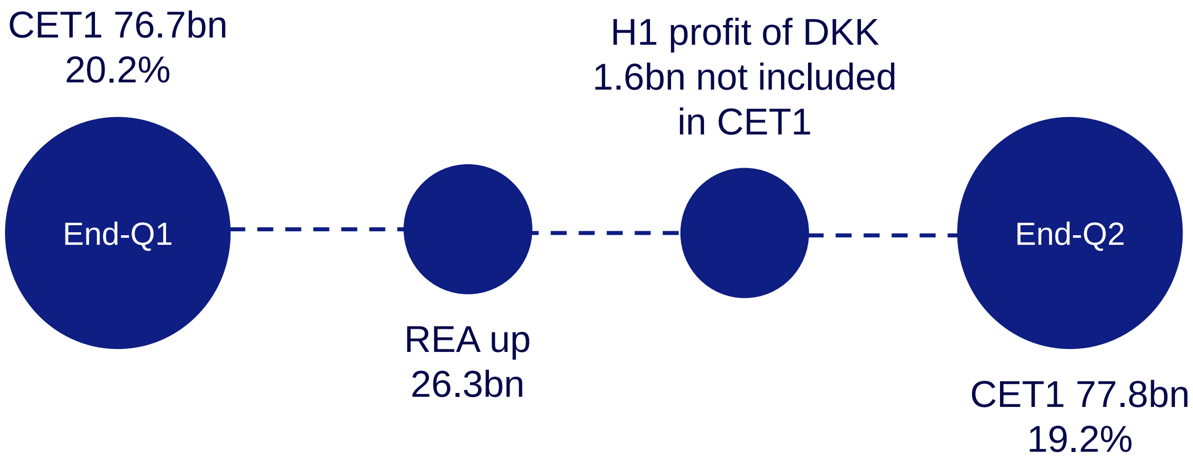
DKKm	Q1/2020	Q2/2020	Index
Income	1,894	4,576	242
- Net interest Income	2,394	2,438	102
- Net fee income	542	594	110
- Wealth management income	502	485	97
- Net interest from capitalisation	-105	-93	89
- Net interest income fr. customer benefit programmes	-45	-52	116
- Trading, investment portfolio and other income	-1,394	1,205	-
Costs	1,420	1,421	100
Business profit before impairment charges	474	3,156	666
Impairment charges	1,312	443	34
Business profit	-838	2,713	-
Legacy derivatives	-421	318	-
Badwill	-	-2	-
Profit before tax	-1,259	3,029	-
Tax	-377	581	-
Profit	-882	2,448	-

Capital remains strong in light of REA inflation

CET1 amounts to 19.2%, some 300 bps above policy target

No dividends has been paid for 2019 adding DKK 3.6bn to CET1 in Q1/2020

REA inflation and non-inclusion of H1 profits in CET1 reduces CET1-ratio by 100bps in Q2



Nykredit Group capital ratios

	End-Q1/2020	End-Q2/2020
Risk Exposure Amount (REA)	378.5bn	404.8bn
CET1	76.7bn	77.8bn
CET1 ratio	20.2%	19.2%
Total capital ratio	**23.0%**	**22.0%**