



Nykredit



Nykredit Group

Q1-Q3/2020 Earnings call

4 November 2020

Numbers relate to Nykredit Group

Agenda

1

Highlights of Q1-Q3/2020 and financial performance

Head of Group Finance & Investments Palle Nordahl



2

Credit, capital and funding

CRO Anders Jensen



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Q&A

Highlights of a Q1-Q3/2020 impacted by covid-19

■ Profit before tax of DKK 4.0bn compared to DKK 5.8bn in Q1-Q3/2019

Business profit of DKK 4.0bn

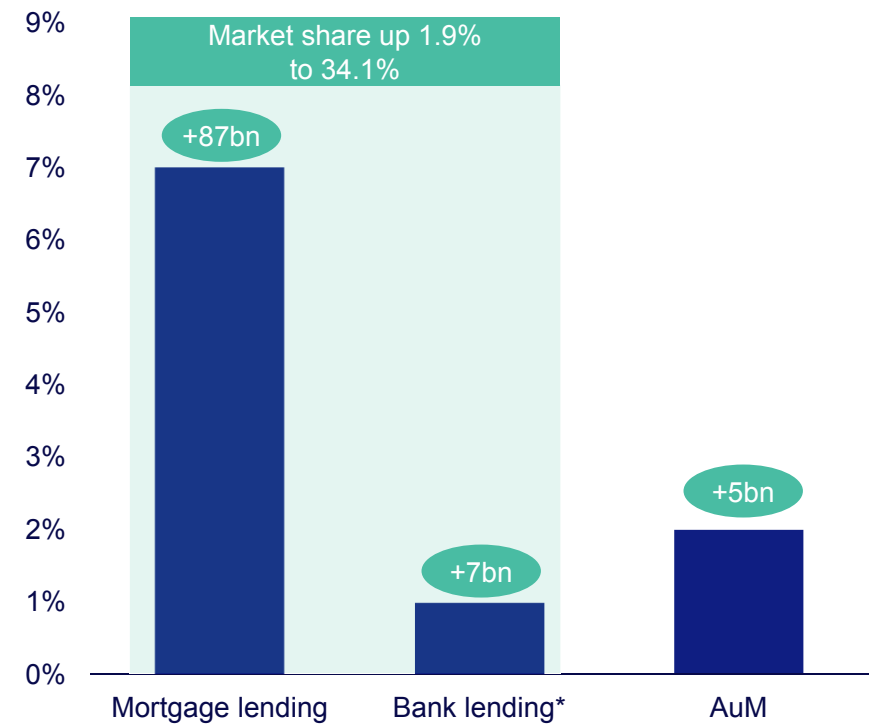
■ Guidance for full year business profit revised up to DKK 5.5 - 6bn

■ Strong underlying business performance

■ Results however, impacted by covid-19 e.g. loan impairments

■ New Green Bond Framework and a number of green products launched

Growth in all business areas since Q3/2019

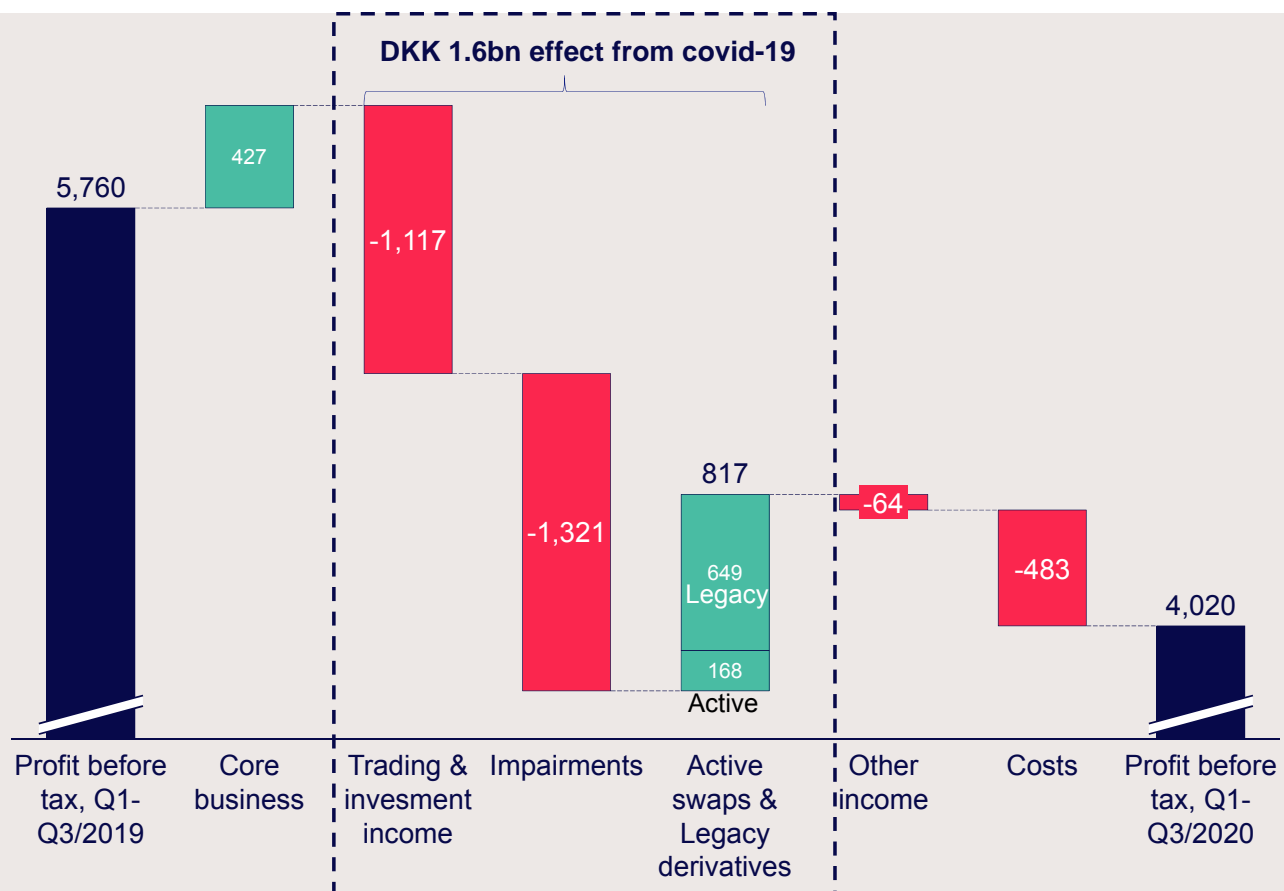


* Including secured home owner loans

Group income statement – Q1-Q3/2020 vs Q1-Q3/2019

DKKm	Q1-Q3/2019	Q1-Q3/2020	Change	
Net Interest Income	6,929	7,280	+5%	Driven higher by volume growth and implementation of negative deposit rates
Net Fee Income	2,008	1,754	-13%	Remortgaging activity still high, although lower than the exceptional level last year
Wealth Management Income	1,116	1,446	+30%	Positive effect of Sparinvest acquisition but negative covid-19 effect
Customer benefits & capitalisation costs	(384)	(461)	+20%	Increase in cost due to ramp up of bail-inable debt
Trading and Investment portfolio	1,164	231	-80%	Normalized level compared to 2019. 2020 losses from market turmoil in Q1 has been reversed during Q2 and Q3
Costs	3,811	4,294	+13%	Higher costs due to acquisition of Sparinvest and Shared Valuation, as well as investments in compliance
Impairment charges	665	1,985	+198%	Impairments of 14 bps. of which 90% relates to covid-19 Ordinary impairments remain low at DKK ~200m or 2 bps.
Business profit	6,357	3,970	-38%	Full year guidance has been revised up to DKK 5.5 – 6bn
Legacy derivatives & badwill	(597)	50	-	Positive in 2020 despite large movements in credit and funding spreads. Significantly better than 2019, which was impacted by declining interest rates
Profit before tax	5,760	4,020	-30%	Full year guidance has been revised up to DKK 5.5 – 6bn

Q1-Q3/2020 better than expected despite covid-19



- Growth in core business income
 - NII, NFI and Wealth Management income up DKK 427m from a year ago
- Net negative effect from covid-19 of DKK 1.6bn
 - Trading and investment portfolio income DKK 1,117m lower than last mainly as 2019 was very strong year for bank equities
 - Impairments DKK 1,321m higher than in 2019
 - Legacy and active derivatives DKK 817m better than last year, which was highly affected by large drops in interest rates
- Increasing costs due to acquisition of Sparinvest, investments in compliance and Shared Valuation

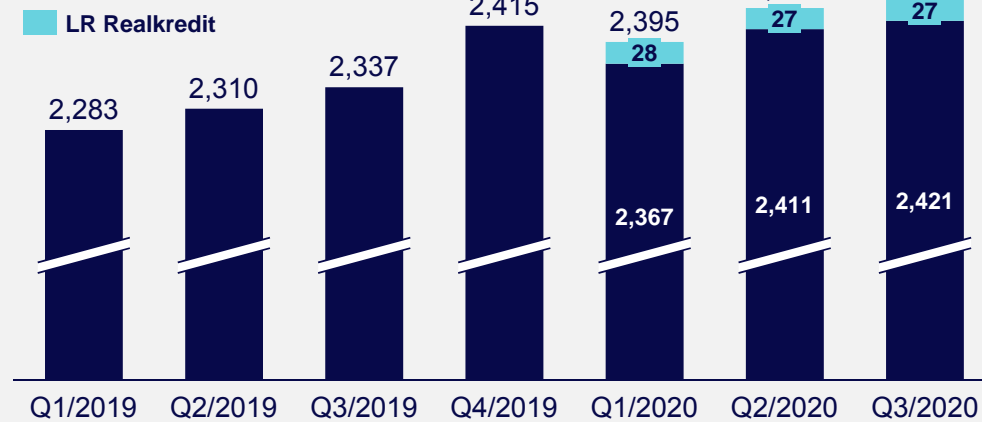
*Interest, fee-, and Wealth Management income

Net Interest Income growth driven by larger volumes

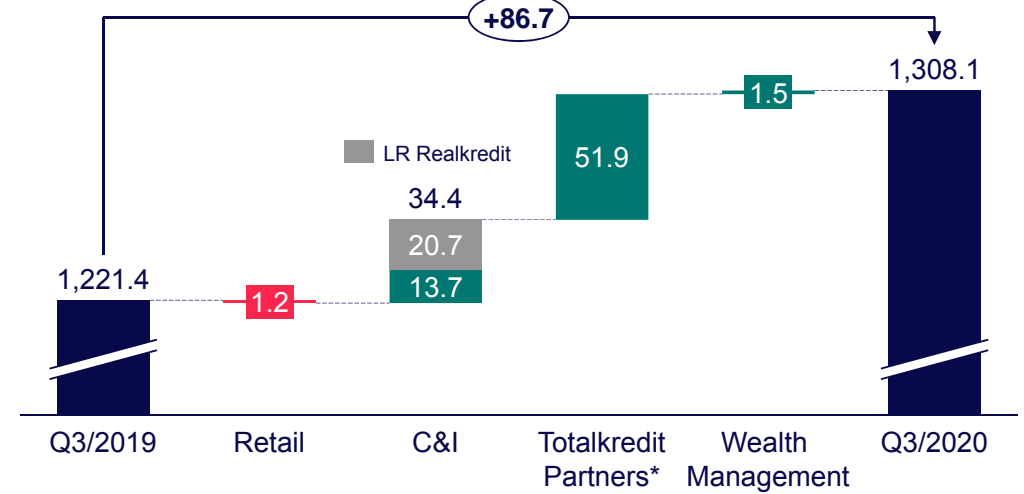
Volume growth offset shift in mortgage product mix

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

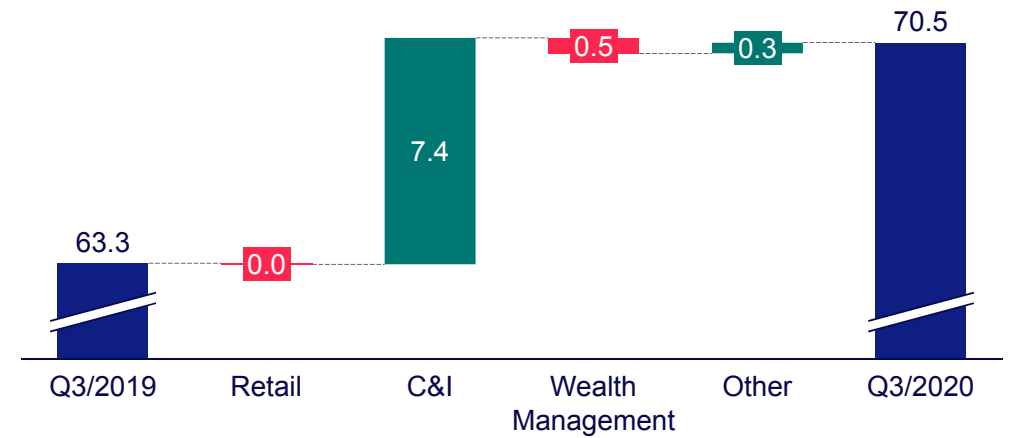
NII per quarter, DKKm



Mortgage lending, DKKbn



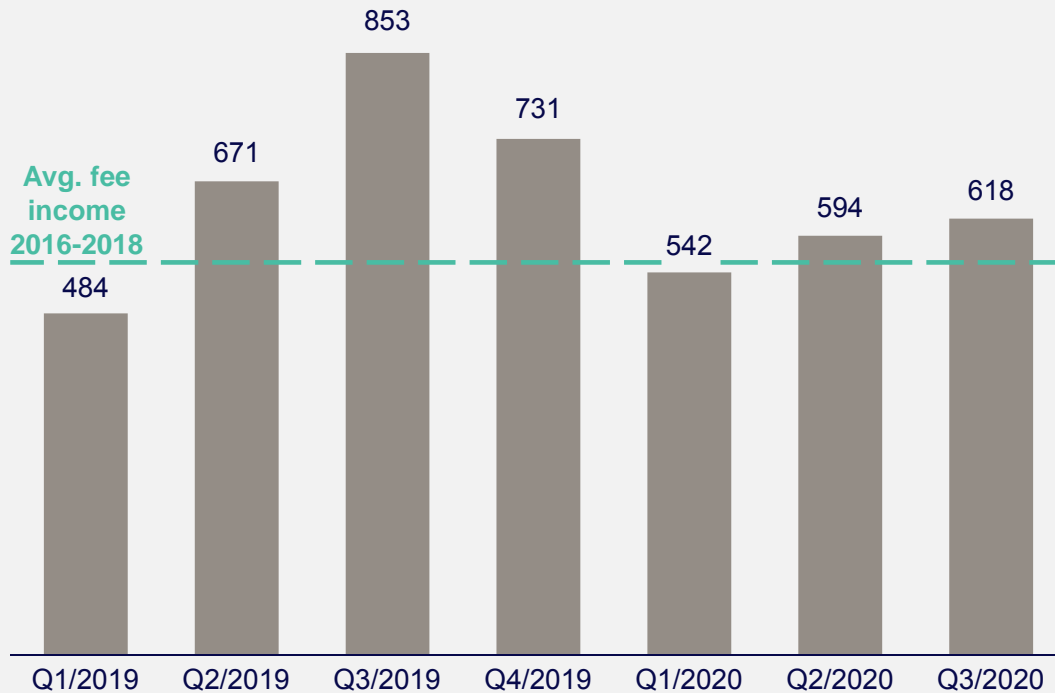
Bank lending, DKKbn



Net fee income

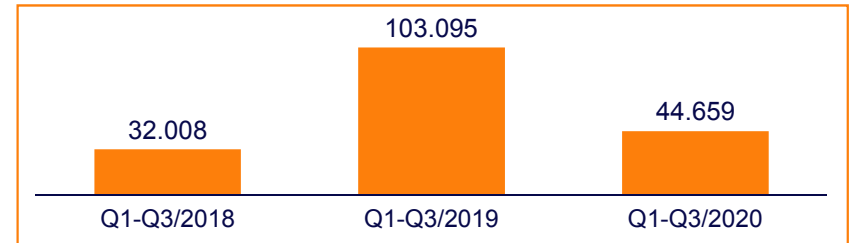
NFI per quarter, DKKm

- A strong 2020 higher than historic average....
- ... but lower than extraordinary 2019

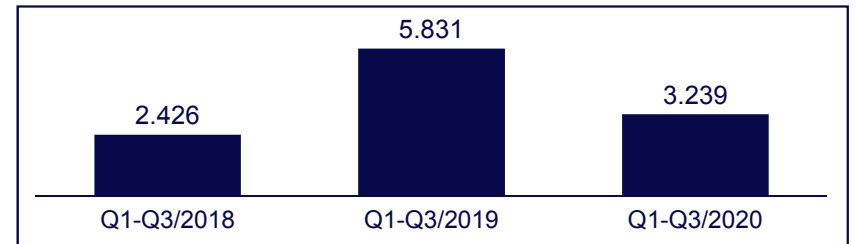


Remortgaging activity - No. of loans

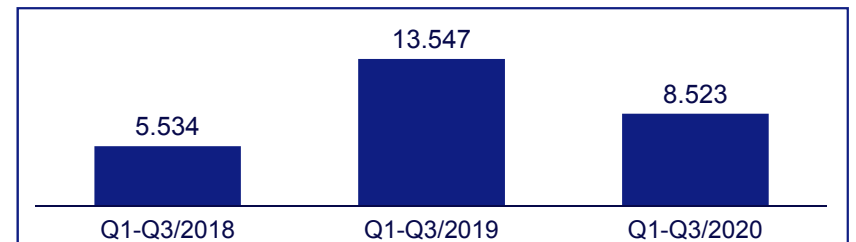
Totalkredit



Business customers



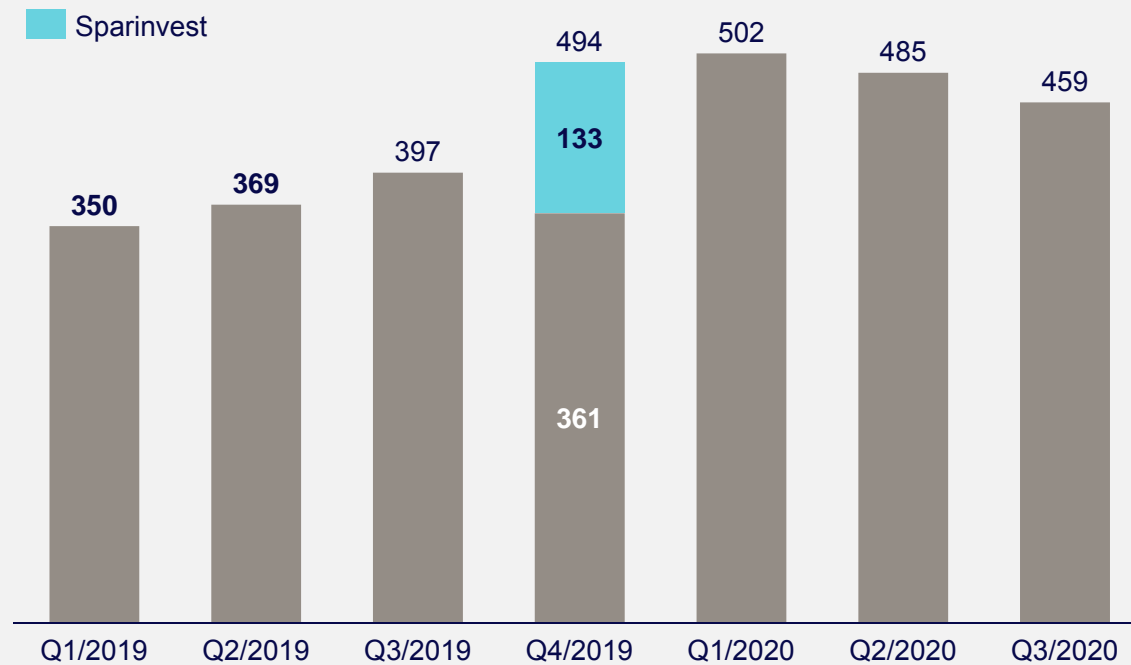
Personal customers



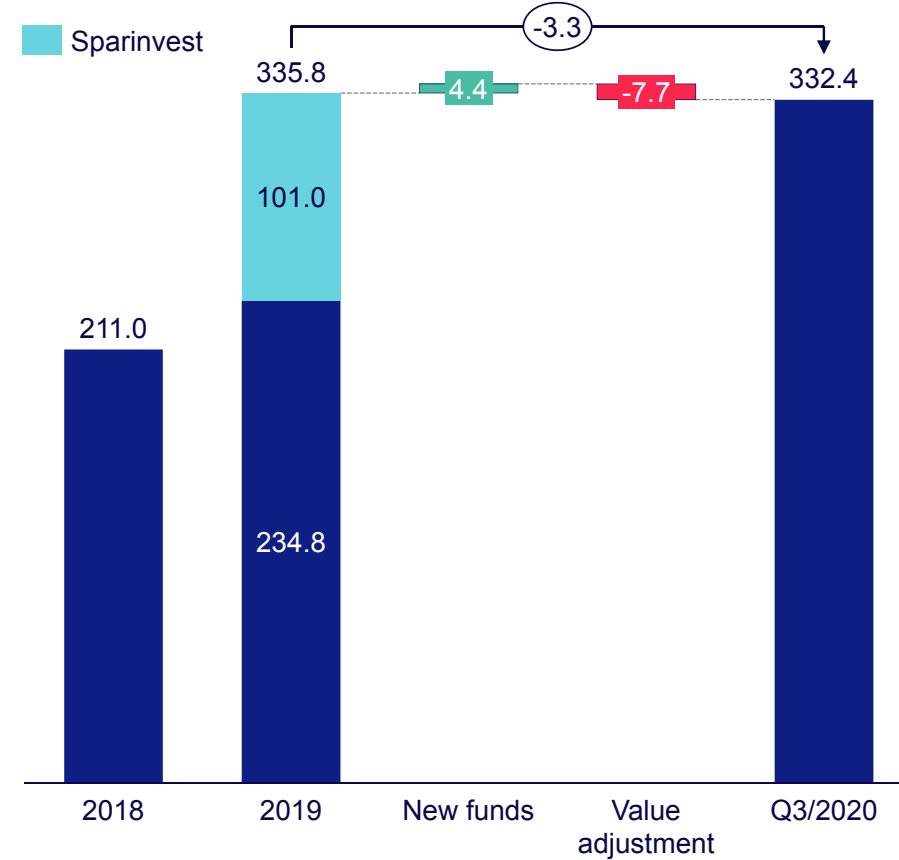
Wealth Management Income

Wealth Management Income, DKKm

- Underlying growth in Wealth Management Income, but AuM decline from covid-19 impacts Q2/Q3 2020 negatively
- Assets under management by end-Q3 almost back at pre-covid-19 levels

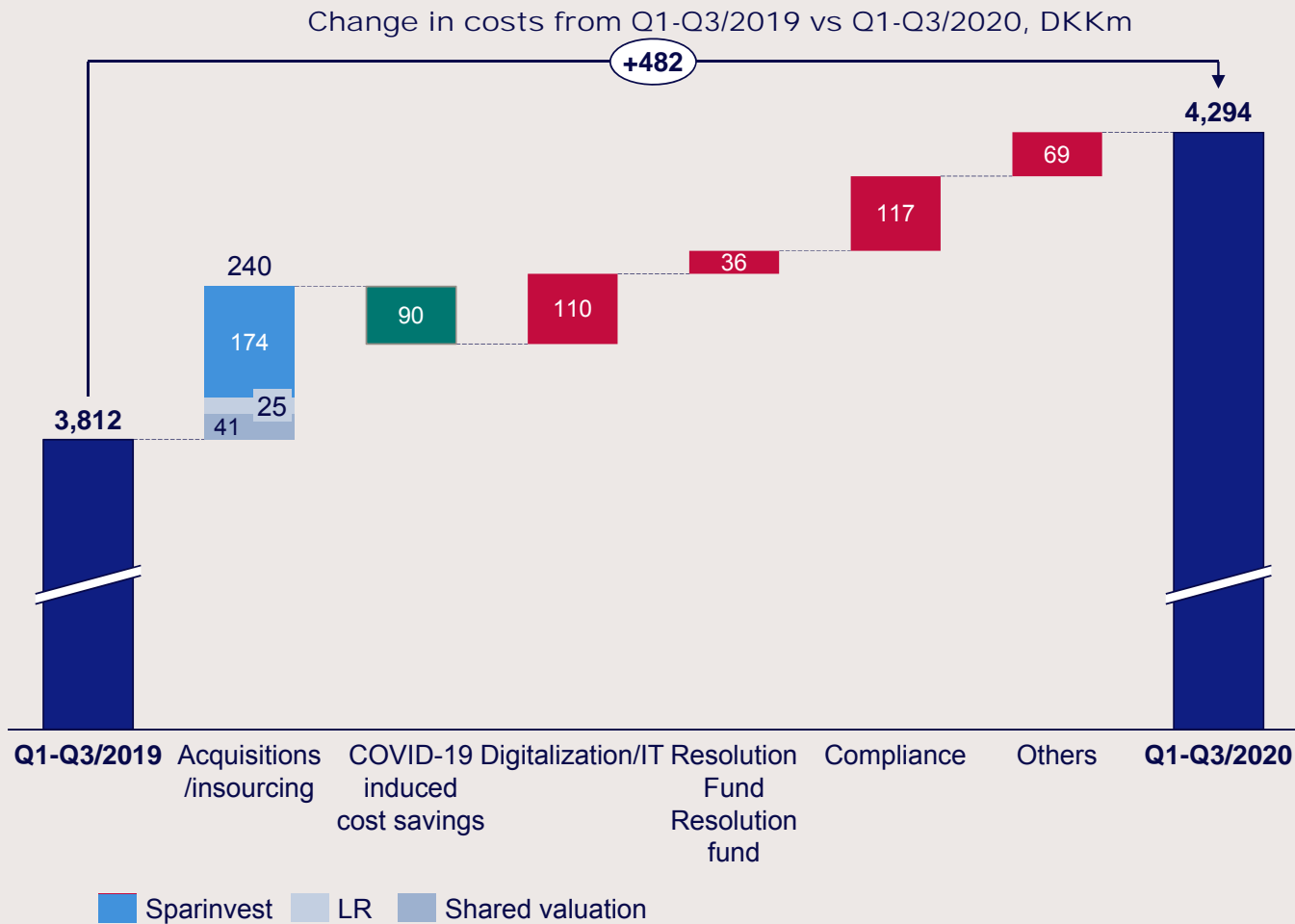


Assets under Management, DKKbn



Cost development

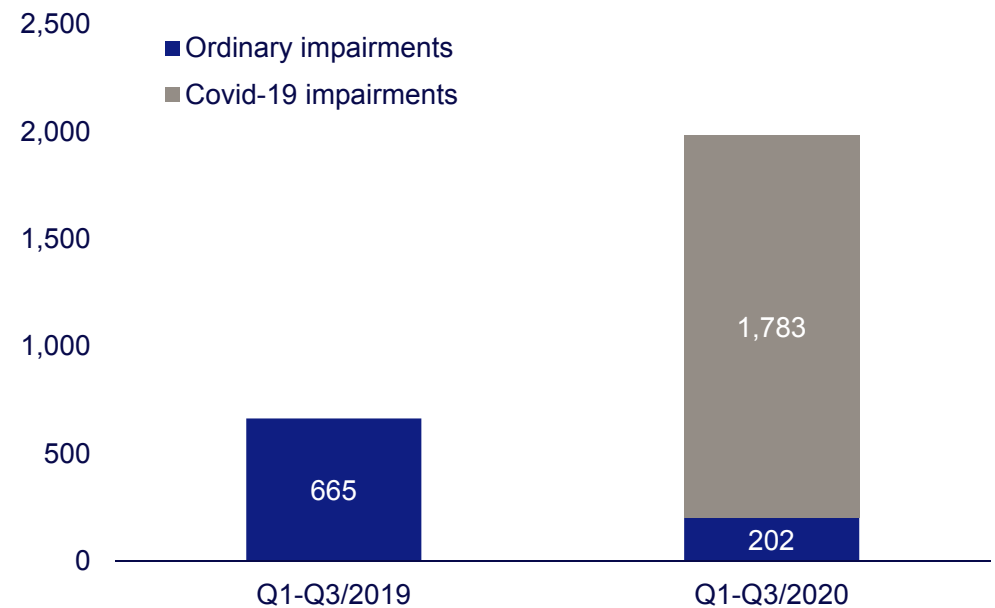
- Costs are up DKK 482m since last year
- 50% of the increase is due to acquisitions and insourcing:
 - Acquisition of asset manager Sparinvest and mortgage bank LR Realkredit
 - Insourcing of property appraisals aka Shared Valuation
- Costs also driven higher by compliance and IT/digitalisation
- Cost savings of DKK 90m in light of the covid-19 situation



Impairment charges driven by covid-19

- Underlying impairment charges remain low at DKK 202m or 2 bps. in Q1-Q3/2020
- The covid-19 pandemic has increased impairment charges significantly in 2020
 - Covid-19 impairment charge of DKK 1,783m equal to 12 bps.
 - DKK 233m of covid-19 impairments have been added in Q3
 - Primarily related to business mortgage exposures
- We have not yet seen loan losses related to covid-19

Impairment provisions, DKKm



New Green Bond Framework supports further green products

- Nykredit has issued green covered bonds since 2019. Today we launched a new Green Bond Framework
- With the framework Nykredit wish to accelerate our efforts and channel even more investments towards sustainable assets such as renewable energy and renovation of properties
- In addition, Nykredit has launched a number of green products in 2019 - 2020:
 - Special discount on loans for electric and hybrid cars
 - New digital service and green bank loans promoting energy renovation for retail clients
 - A green contribution of DKK 10,000 to 3,000 customers who replace their oil fired boilers with heat pumps
 - Green leasing product for farmers
 - Nordic Swan Ecolabelling fund "Bæredygtige Aktier" (Sustainable shares)
- Nykredit's green initiatives are supported by mutual majority shareholder Forenet Kredit that has contributed DKK 200m to green initiatives in Nykredit



We want to be the customer-owned, responsible financial provider for people and businesses all over Denmark





Credit, capital and funding

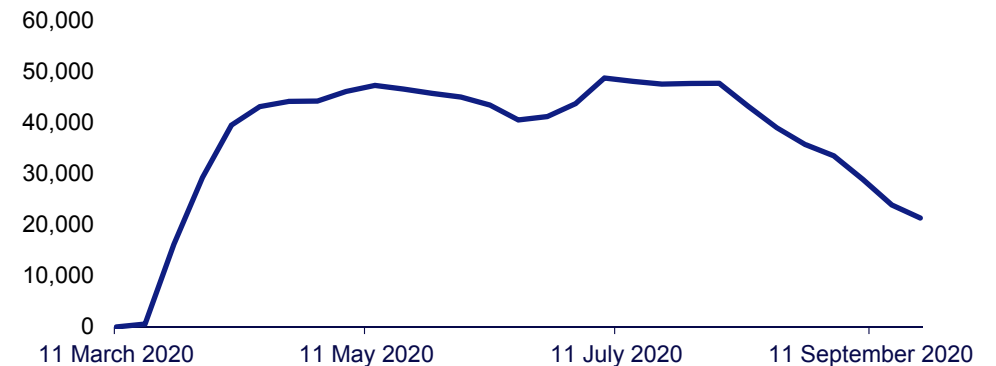
CRO Anders Jensen

Covid-19 support measures offset effect of higher unemployment

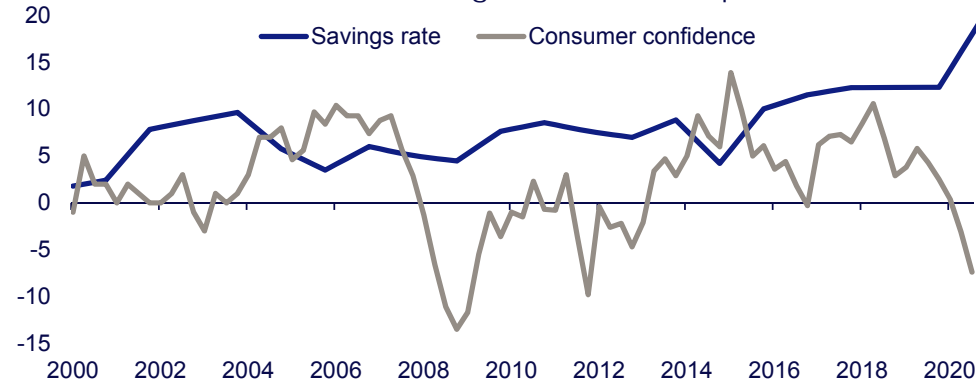
We see few signs of financial stress for our customers

- Unemployment is receding after a spike during the spring and summer
- Government wage compensation schemes (furlough) terminated 31 August, but has been replaced by a temporary labour sharing scheme lasting until 31 December
 - Peaked at some 250,000 persons (300,000 including self employed)
 - Just 30,000 left when scheme terminated in end of August
- Consumer confidence driven lower by covid-19 and higher unemployment
- The savings rate has increased from an already high level as households spend less in light of the pandemic

Covid-19 related increase in number of unemployed people

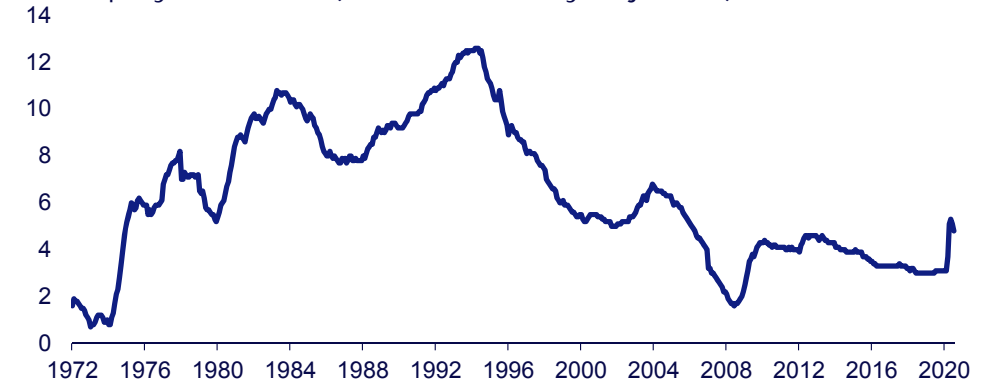


Consumer confidence & savings rate, % of disp. income



Source: Macrobond and Danish Ministry of Employment

Unemployment rate (FTE, seasonally adjusted)

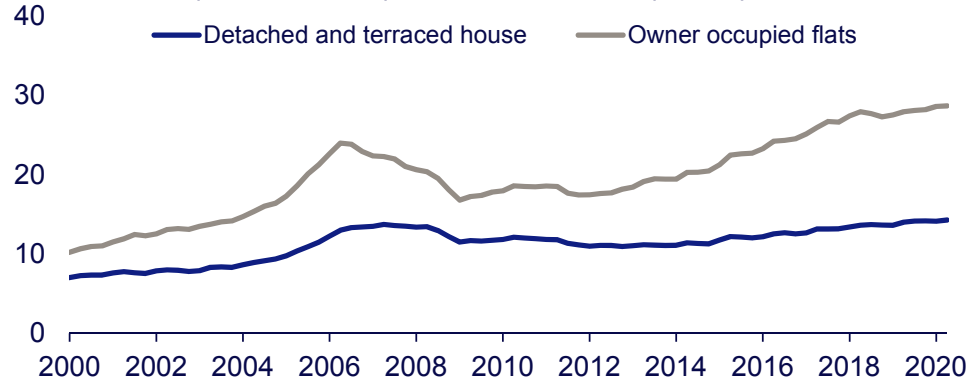


Rebound in housing market turnover after covid-19 lock down

Property prices are increasing

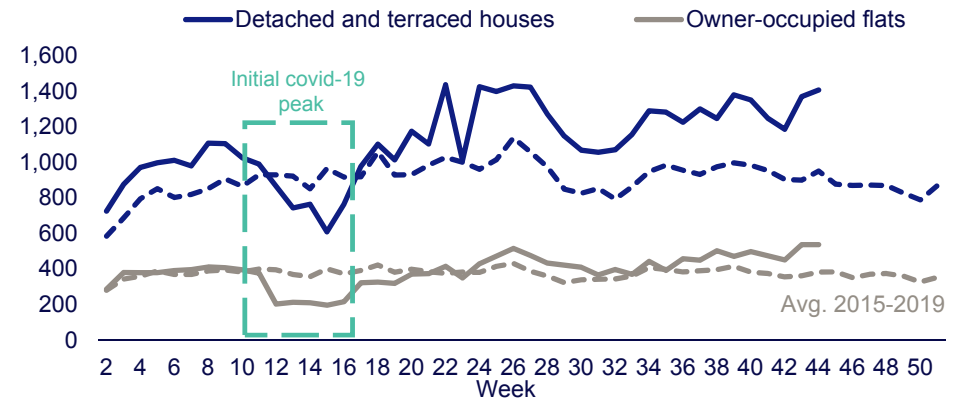
- Lock down of Danish society from 11 March reduced turnover by approx. 50%
- From late April we saw a strong rebound to a level well above 5 year average
- New supply of properties for sale has been lower than usual...
- ...leading to price increases

Real estate price development, DKK '000 per sqm

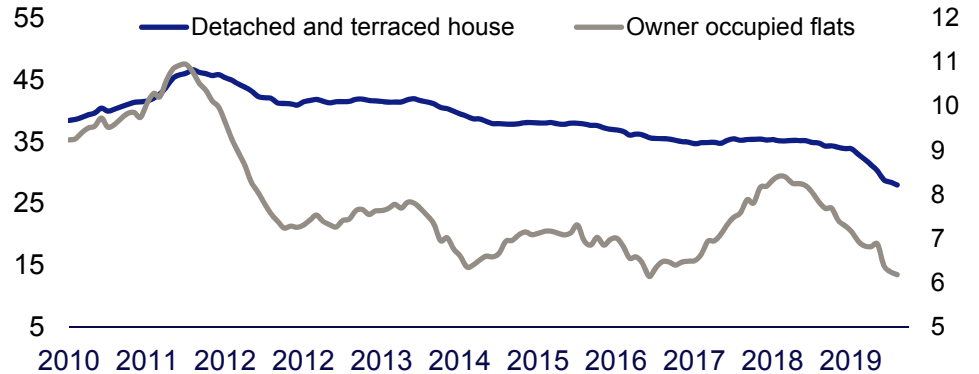


Source: Macrobond and Boligsiden.dk

Property sales per week



Number of properties for sale, 1,000s



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 and personal loans for up to 6 months

~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

~400 applications



- No general payment holiday scheme for mortgages in Denmark
- 9 out of 10 applications approved
- Approx. DKK 5bn approved in total
- Vast majority of approvals relates to liquidity lines to large corporates

Source: Nykredit

Nykredit

Basis for covid-19 related impairments

- Pandemic related impairments of DKK 1,783m 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

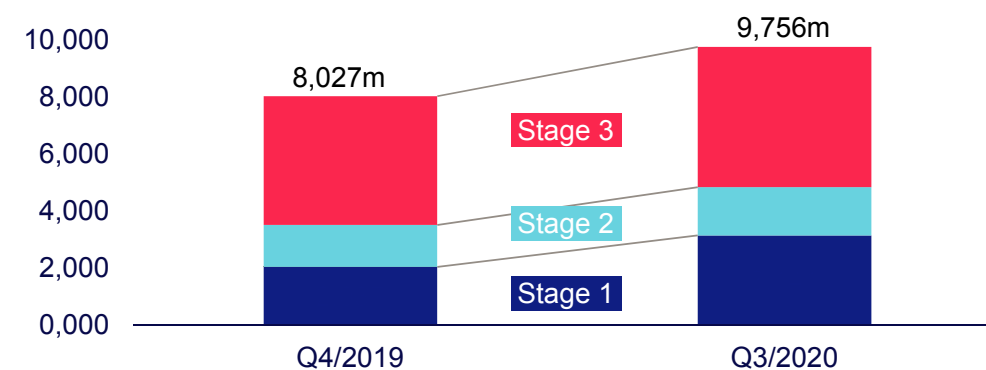
A 20% probability is assigned to current economic situation

- Macro economic assumptions have been updated since Q2 with more benign development in house prices in 2020 and slightly higher unemployment in 2020-2022

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

Per cent	2018	2019	2020e	2021e	2022e
Short interest rate	-0.3	-0.4	-0.2	-0.2	-0.2
Long interest rate	0.4	-0.2	-0.3	-0.2	0.0
House prices	3.8	3.0	-0.8	0.0	2.2
GDP	2.4	2.4	-5.0	3.8	2.7
Unemployment rate	3.1	3.1	5.0	5.0	4.5

Development in IFRS 9 impairments by stage

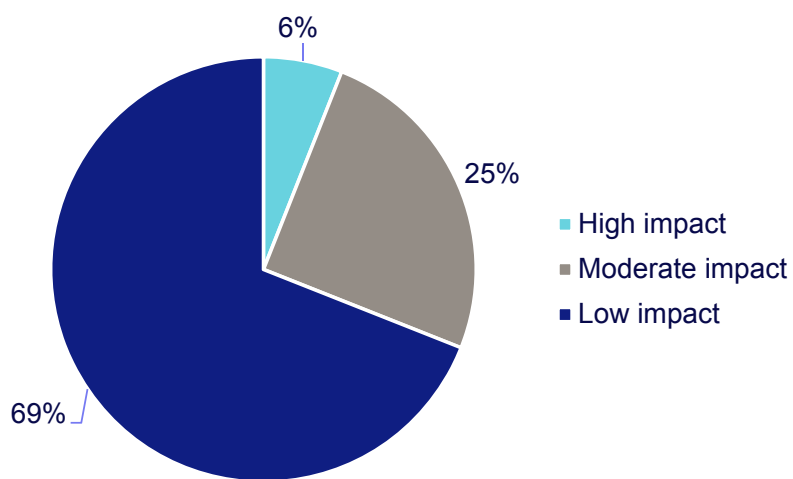


Loan portfolio risk and exposure to covid-19 impact

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

- 6% of total lending is to industries that are deemed to have a high risk of being impacted by the pandemic
 - Approx. 60% of these loans are secured by a mortgage
 - Nykredit has virtually no exposure to oil/gas and airlines
- The composition of Nykredit's loan portfolio is very stable over time due to mortgage focus

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



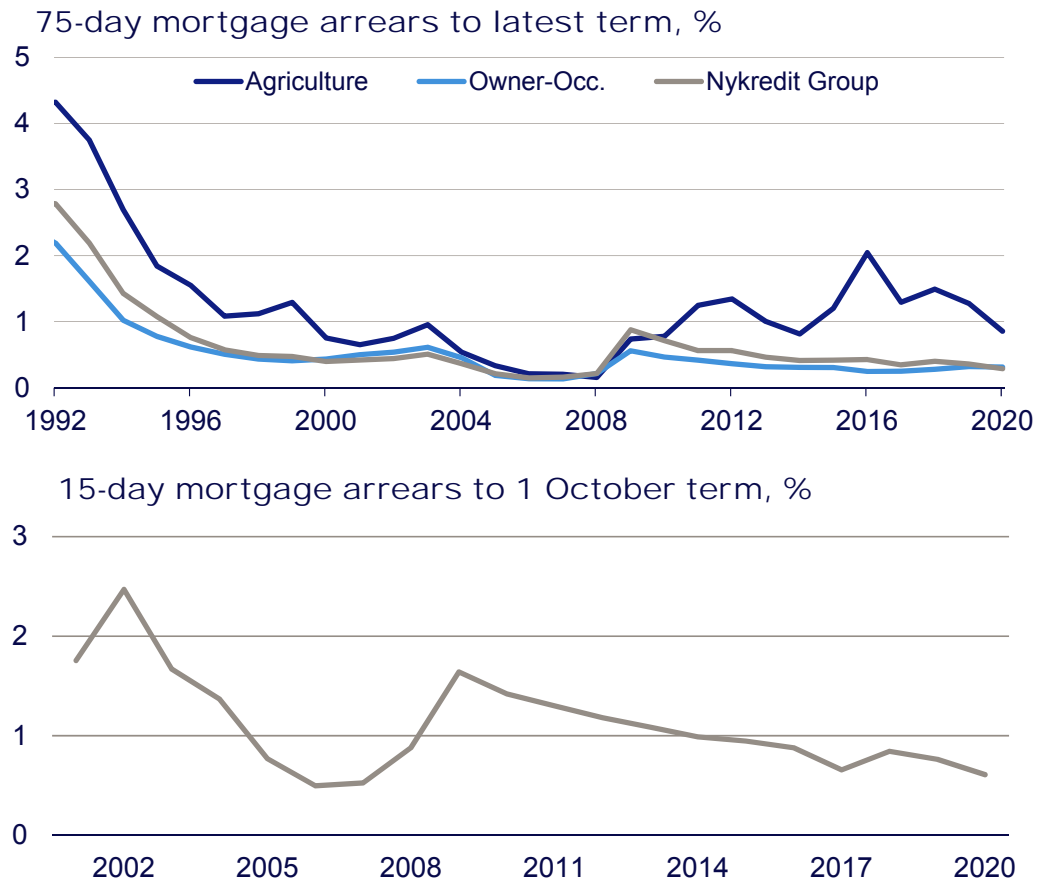
DKKm	Lending	Of which mortgage	Impairments
Accommodation & food services	4,186	90%	14
Retail trade	6,252	73%	21
Transportation	7,536	37%	30
Construction	22,673	59%	99
Production	37,323	54%	117
Coop housing	42,109	86%	117
Residential rental	236,981	94%	506
Outside Denmark	78,648	85%	145
Agriculture	80,424	97%	186
Households	837,772	98%	395
Public sector	2,005	73%	6
Financial institutions	55,072	6%	27
Education	12,056	87%	13
Other	24,758	64%	80
Total	1,447,797	90%	1,757

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

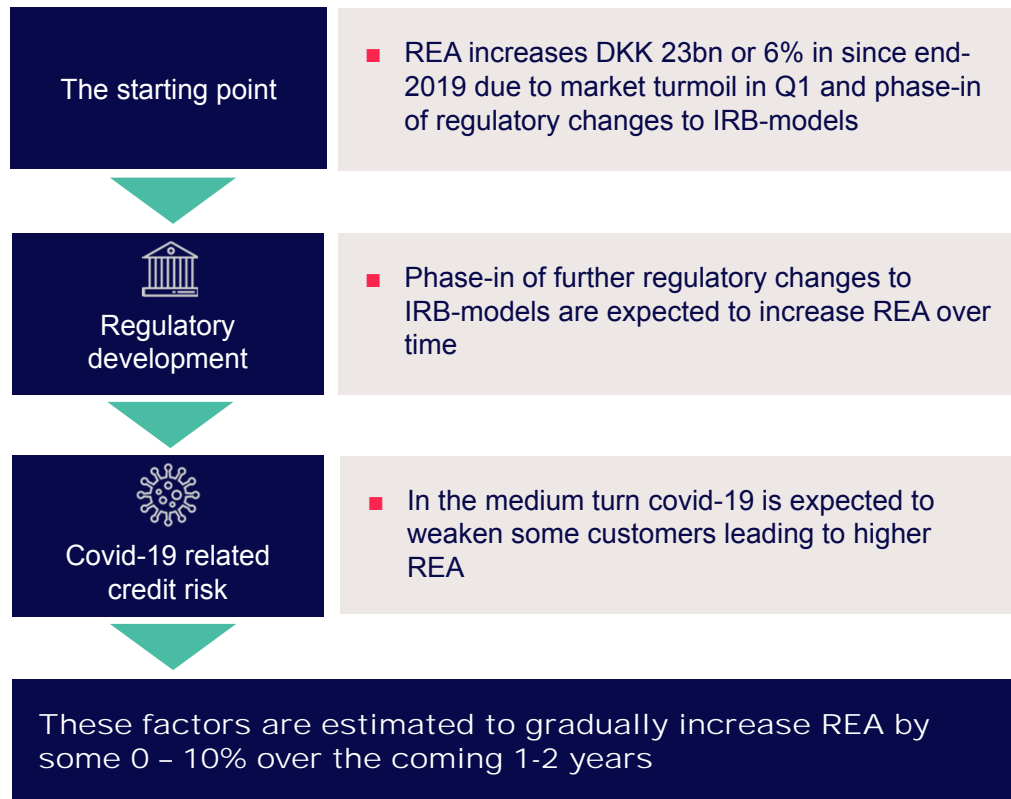
Credit quality

- 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

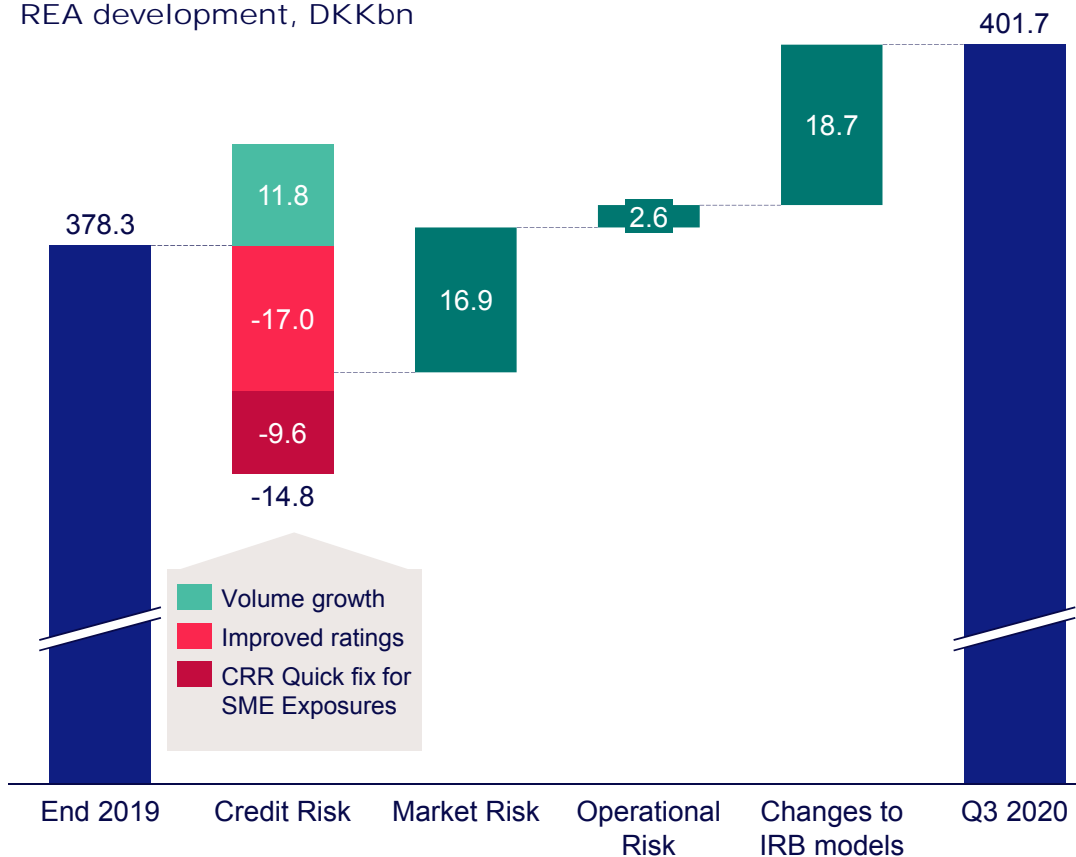
Source: Nykredit company reports and Fact Book



Ongoing upward pressure on REA



REA development, DKKbn

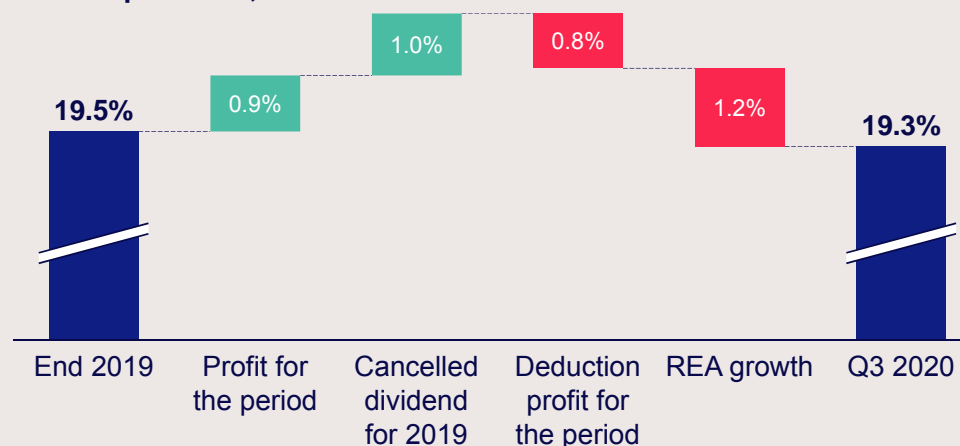


Strong capitalisation

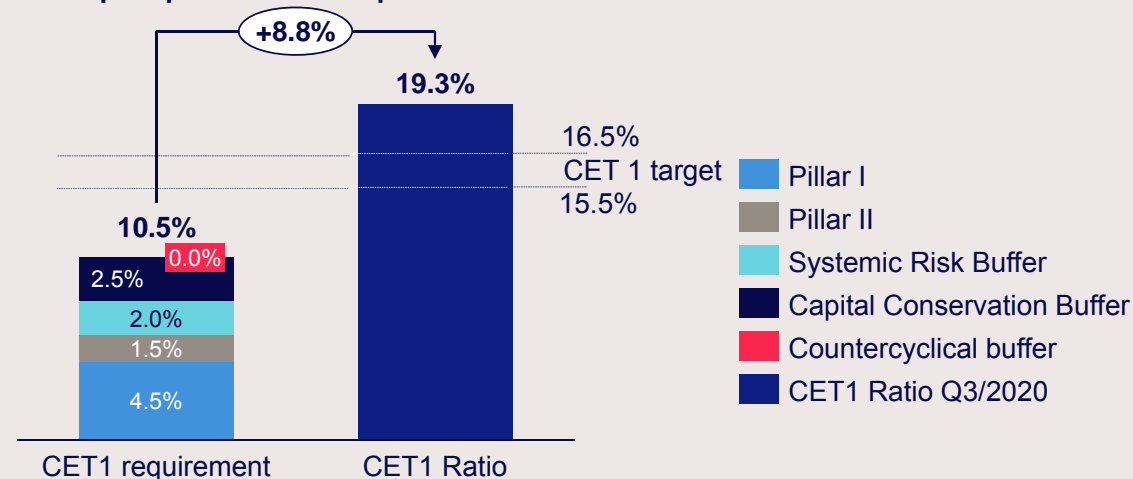
Capital highlights

- Dividends of DKK 3.6bn for 2019 have not been paid as per Danish FSA recommendation to all Danish banks
- Dividend policy unchanged at 50% pay-out
- CET1 ratio has decreased since end 2019 driven by higher Risk Exposure Amount
- Profit for Q1-Q3/2020 has not been included in CET1 as results have not been audited
- CET1 ratio amounts to 19.3% which is some 300 bps above Nykredit's capital policy target
- Nykredit has already reserved CET1 capital to meet Basel IV and potential business cycle downturn
- Significant buffer of 8.8%-points to capital requirements
- New AT1 of EUR 500m has been issued in October

CET1 capital ratio, end 2019 to Q3/2020



CET1 capital position and requirement



Full phase-in of bail-in requirements by 2022

Regulation

- The Group's mortgage banks are exempt from MREL, but Nykredit must comply with a debt buffer requirement and requirements for bail-inable debt on group basis
- Effectively creating a requirement of 8% of bail-inable liabilities at Nykredit Realkredit Group level from 2022

Composition of the 8% requirement for bail-inable liabilities

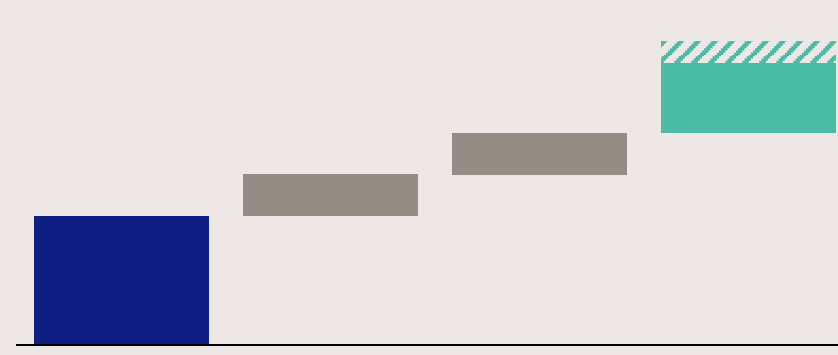
CET1, subordinated debt and Senior Non-Preferred debt covering these requirements...

- = Regulatory capital requirements and capital policy for the Group's two mortgage banks
- + capital and MREL requirements for Nykredit Bank
- + special Danish mortgage bank debt buffer equal to at least 2% of mortgage assets
- + any shortfall between the above items and 8% of TLOF

DKKbn

160
140
120
100
80
60
40
20
0

Mortgage banks' capital needs * Bank capital requirement Bank MREL add-on Group debt buffer



* Mortgage banks' regulatory and policy capital needs.

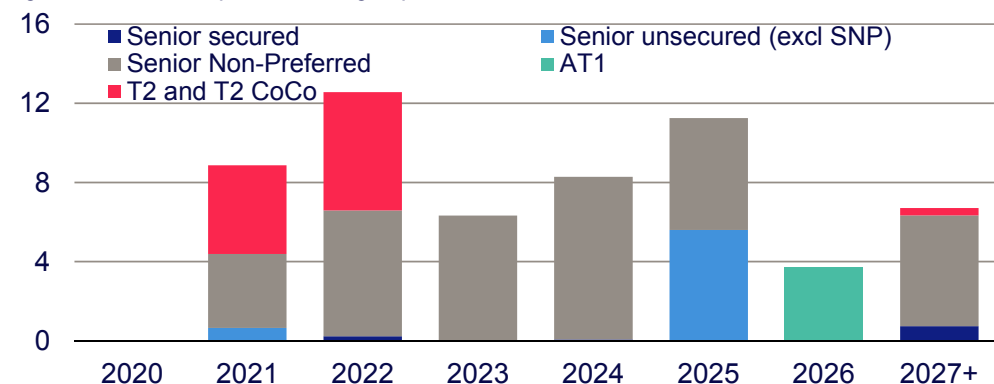
Funding and ratings

Funding

- Nykredit must hold at least 8% of TLOF in bail-inable format by 2022
- Amount of bail-inable liabilities is expected to increase from currently DKK 136bn to 140-150bn by end-2021
 - DKK 15bn has been issued in 2020 in senior format
- Nykredit expects to issue DKK 0 - 5bn in senior debt during the remainder of 2020
- In October we issued EUR 500m AT1 with first call in 2026
 - Strong demand from well diversified investor base
 - A coupon of 4.125% provided Nykredit with significant reduction in funding costs
- In covered bonds we will conduct our quarterly refinancing auctions of some DKK 27bn from 16 to 20 November

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

Nykredit Group maturity* profile, DKKbn



Nykredit's ratings

	S&P Global	Fitch Ratings
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+	-

Summary

Result and Income from business	<ul style="list-style-type: none">■ Satisfactory business profit of DKK 4.0bn■ NII, NFI and Wealth Management Income 4% higher than last year■ Income from Trading, investment portfolio and derivatives recovered after Q1 losses to a profit of DKK 0.2bn
Costs	<ul style="list-style-type: none">■ Acquisitions and insourcing has increased costs as well as income. Also higher IT and compliance costs■ Cost:Income ratio of 41.9% for the period in line with target for structural C:I ratio of 40%
Impairments and covid-19	<ul style="list-style-type: none">■ Significant and prudent impairment charges for covid-19 impact while we still remain to see actual corona related loan losses
Growth in business volumes	<ul style="list-style-type: none">■ Satisfactory volume growth in both mortgage lending and bank lending
Capital and guidance	<ul style="list-style-type: none">■ Nykredit has very strong capitalisation with CET1 of 19.3% excluding profit for the period■ Upgraded guidance for business profit and result before tax for 2020 to DKK 5.5 – 6bn



Appendix

Q3 vs. Q2: Income lower due to trading and investment portfolio income

Lower trading and investment income and impairments

- Income form business mixed
 - NII flat
 - Net Fee Income 4% higher as remortaging is continuing
 - Wealth management income down 5% on lower fees
- Rebound from losses in Q1 more muted than in Q2 and resulted in DKK 420m in Trading, investment portfolio and other income
- Costs up 2%
- Impairment charges amounted to DKK 230m driven by covid-19
- Business profit of DKK 2,095m compared with DKK 2,713 in Q2/2020
- Legacy derivatives recorded a positive value adjustment of DKK 154m
- Profit before tax of DKK 2,250m compared with DKK 3,029m in Q2/2020

Business results Q2/2020 vs Q3/2020

DKKm	Q2/2020	Q3/2020	Index
Income	4,576	3,779	83
- Net interest Income	2,438	2,448	100
- Net fee income	594	618	104
- Wealth management income	485	459	95
- Net interest from capitalisation	-93	-109	117
- Net interest income fr. customer benefit programmes	-52	-57	110
- Trading, investment portfolio and other income	1,205	420	35
Costs	1,421	1,454	102
Business profit before impairment charges	3,156	2,357	75
Impairment charges	443	230	52
Business profit	2,713	2,095	77
Legacy derivatives	318	154	48
Badwill	-2	-	-
Profit before tax	3,029	2,250	74
Tax	581	437	75
Profit	2,448	1,806	74