Nykredit Group

Q1/2020 Earnings call

7 May 2020

Numbers relate to Nykredit Group

Agenda

1

Highlights and strategy comments

CEO Michael Rasmussen

2

Financial performance, credit and funding plans

CFO David Hellemann

3

Q&A

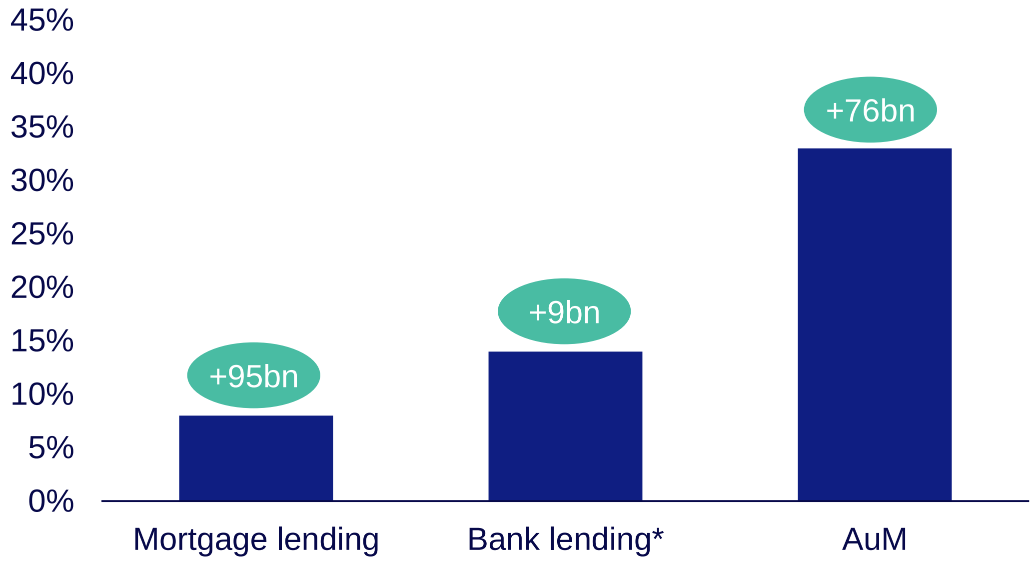
Highlights of a Q1/2020 that turned challenging towards the end

- Business profit of DKK (0.8)bn compared to DKK 2.2bn in Q1/2019
  Guidance for full year business profit revised to DKK 2.5 to 3.5bn
- Continued loan growth in both mortgages and banking
- NII, NFI and Wealth Management Income grew by 10% in total
- Integration of Sparinvest and LR Realkredit progressing according to plan
- Integration of Sparinvest, Shared Valuation and compliance drive costs higher compared to Q1. Costs are 8% lower than in Q4
- Impairment charges of DKK 1.3bn vs. 0.2bn last year driven by covid-19
  Underlying provisions are broadly in line with previous quarters
- Covered bond funding is resilient and Nykredit has accessed the market every day as usual in spite of a volatile market backdrop
- Board of Directors decided to postpone a decision on dividends for 2019

Growth in business volumes

- Mortgage lending has been growing driven by significant remortgaging activity and acquisition of LR Realkredit
- Strong growth in bank lending – especially in Q1 as large business customers utilise existing credit lines
- Credit standards maintained in face of both growth and crisis
- Wealth Management is growing both organically and via the acquisition of Sparinvest

Growth in all business areas since Q1/2019



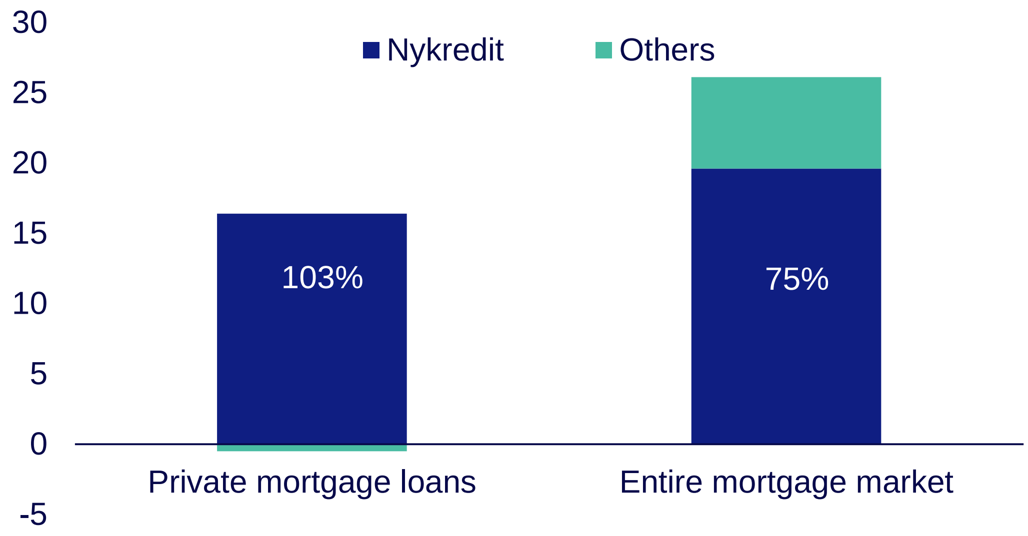
* Including Secured home loans transferred to Totalkredit

Mortgage loan growth and diversification go hand in hand

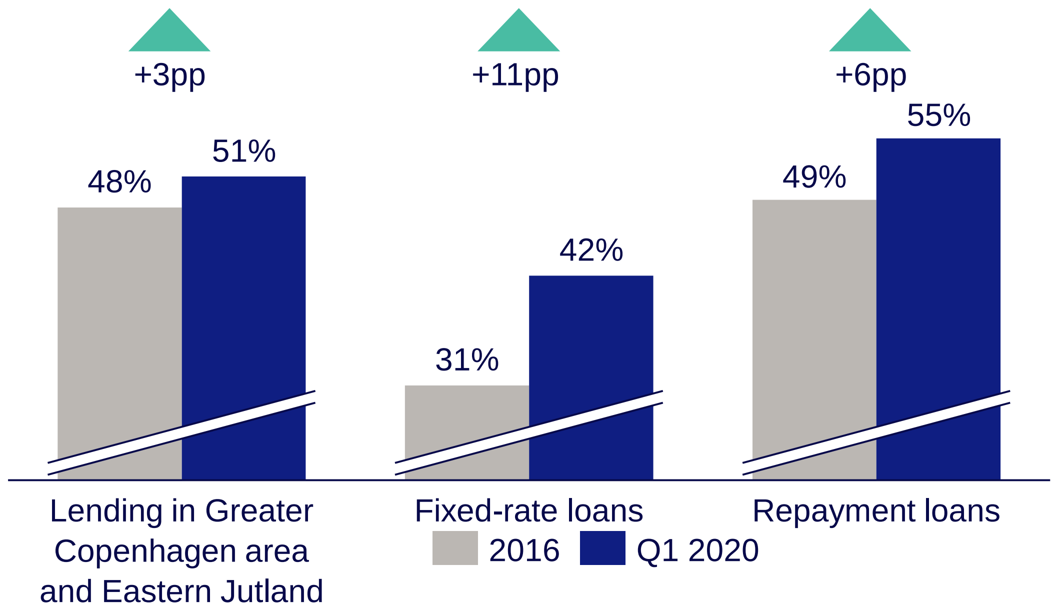
Nykredit capuring majority of market growth

- Nykredit captured 75% of the growth in the mortgage market in Q1
- On mortgages to personal customers Nykredit and partner banks captured all growth in Q1
  - For the previous 12 months the market share amounted to 76%
- Overhang of mortgage loans with competing banking groups has been shifted to Totalkredit in connection with remortgaging
- 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)
  - Lower proportion of loans with interest only and/or floating rate
  - Reduced credit and refinancing risks for Nykredit and lower churn

Market share of market growth in Q1, DKKbn



Positive trend in mortgage portfolio metrics

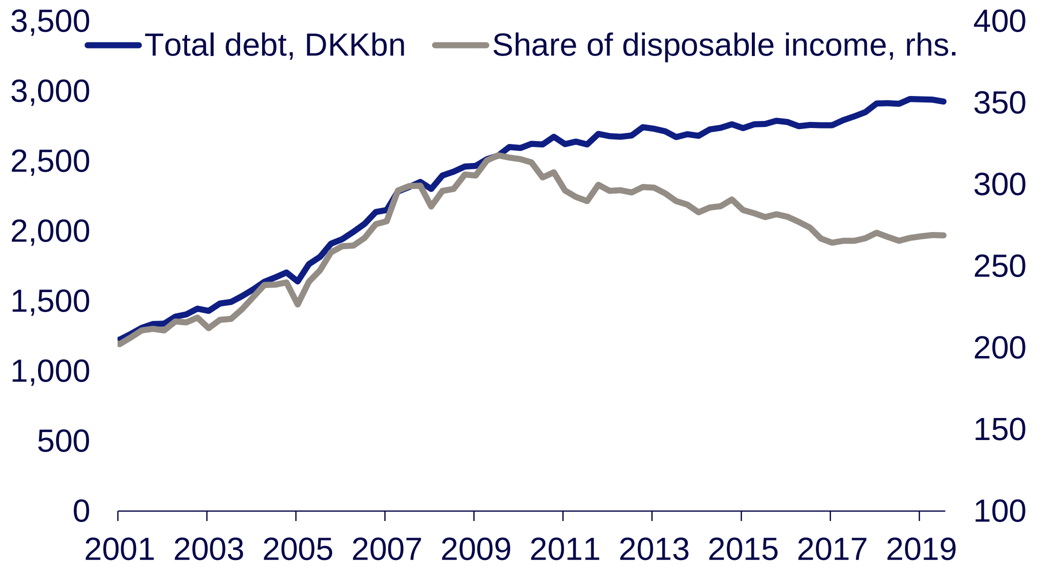


Covid-19 is affecting households and the wider economy

Households and SMEs were robust entering the crisis

- Low unemployment prior to covid-19 outbreak
  - 50,000 people have lost their jobs since mid-March
  - In addition some 180,000 persons are sent home under government wage compensation schemes (furlough)
- High household savings rate
- Significant less debt-to-income than in 2009

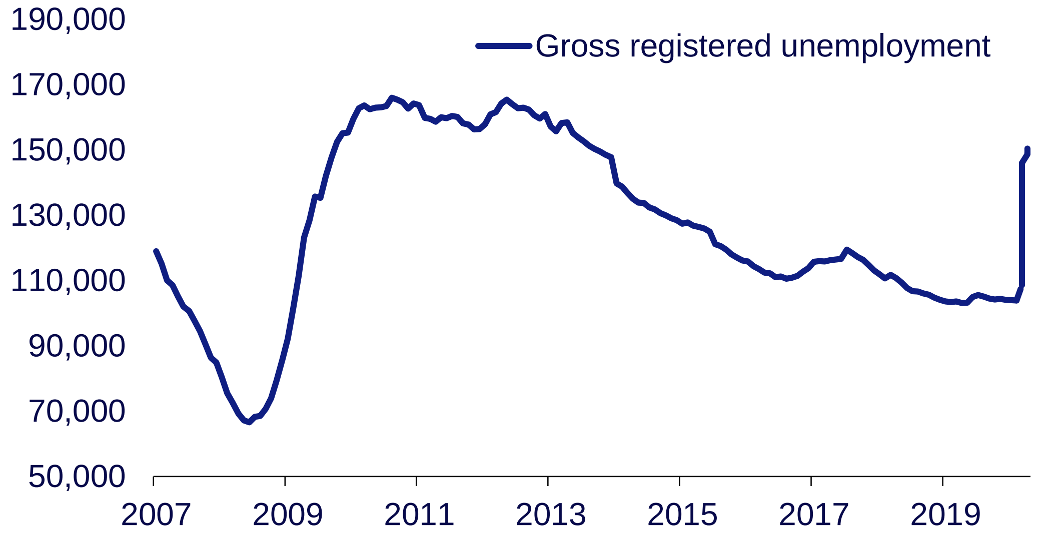
Household debt



The welfare state protects households in distress

- All healthcare in Denmark is tax funded and free of charge
- Most Danes have a right to full salary during sick leave…
- …most others are entitled to sick leave compensation from insurance or the state
- Flexicurity labour market model with unemployment benefits for up to 2 years

Rapid increase in unemployment (No. of persons)



Source: MacroBond

Fast and comprehensive financial support from the government

- Unprecedented unanimous backing in Parliament to initial covid-19 mitigation initiatives
  - Mitigation of economic impact of the pandemic
  - State support to businesses to avoid mass lay-offs
- Salary compensation scheme agreed between government, private sector employers and trade associations in just 24 hours
- Support schemes agreed and implemented much faster and with significantly wider scope than during the global financial crisis
- Agreement between the government and the banking sector to support the economy
  - Government guarantees for loans and credits
  - Banks should refrain from paying dividends
  - Targeted regulatory adjustments to support forbearance

Initiative	Nykredit's assessment of the initiative
Postponement of VAT and income tax payments	Expected to have a major short-term impact, but some businesses will be unable to make the payments once they fall due.
Compensation scheme for cancellation of large events	Expected to have a major impact on the relevant businesses, which constitute a small segment, however.
Two guarantee types	Enables businesses otherwise unable to provide adequate security to obtain finance. Nykredit will use guarantees from Vaekstfonden (the Danish Growth Fund) to hedge the risk of providing finance to overcome liquidity challenges.
Reimbursement of employers	Expected to have limited impact due to the limited number of cases.
Flexible short-time working	May have a significant impact on businesses that are not shutting down but are recording substantially lower activity levels.
Release of countercyclical capital buffer	Frees up liquidity for Nykredit and may potentially increase lending options.
Temporary wage compensation	Expected to have a significant impact on businesses that are shutting down completely, including the accommodation and food service segments. However, the part of payroll costs not covered by the scheme will cause liquidity challenges to many businesses. Nykredit's offers bridge financing until compensation is paid and favourable financing of the remaining payroll costs.
Compensation scheme for fixed costs	Expected to have a significant impact on businesses that are shutting down completely.
Compensation scheme for the self-employed	Expected to have a significant impact on the self-employed, including hairdressers, massage therapists, cleaning services etc
Improved loan options for pupils and students	Expected to have a limited impact.

We are ready to support our 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

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

The majority of applications for these facilities have been approved

- If the customer was deemed credit worthy in January we still consider her to be so today
- Faster credit procedures but unchanged credit policy
- High degree of certainty in both accepted and denied loan applications with four-eyes principle on all refusals
- 10% growth in bank lending in Q1 is primarily driven by large corporates utilising existing lines of credit to strengthen liquidity
- Very few applications for emergency credit to household customers

Nykredit is fully operational and open for business

Fully operational

- Capacity to run our business with virtually all staff working from home
- All meetings with customers and internally are conducted online
- Morale and efficiency are high
- We are ready to serve our customers and seize business opportunities

Safe and secure

- 90+% of staff working from home
- IT security and GDPR complies with normal standards
- Critical functions like Executive board, funding, trading and IT are split between different locations

Business (almost) as usual

- Funding in the Danish covered bond market has yet again proved resilient
- Average daily issuance of covered bonds of DKK 1.1bn since Danish lockdown started 11 March

Nykredit's average daily issuance of covered bonds to fund new lending and re-mortgaging, DKKm (weekly data)

Conservative capital policy makes Nykredit resilient to stress

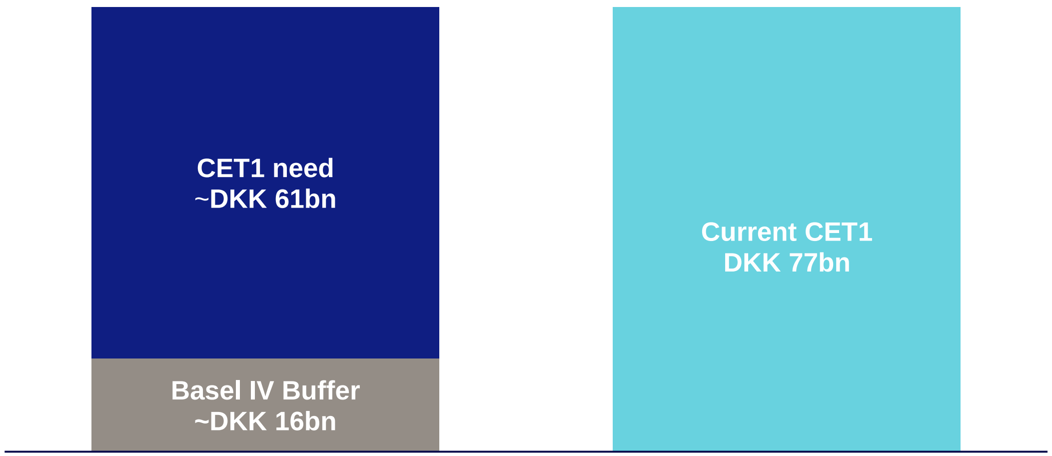
Capital policy considerations

- CET1 amounts to 20.2% which is some 400 bps above policy target
- Decision on dividends of DKK 3.6bn for 2019 has been postponed which has added 95 bps. of CET1 in Q1
- Access to additional capital via mutual ownership structure and pensions funds
  - Approx. DKK 9bn (~300bps REA) of capital with main shareholder Forenet Kredit
  - Capital commitment from pension funds of DKK 7.5bn (~200 bps REA)
- Capital requirements fluctuate with business cycles and property prices
- Capital policy include a 400bps CET1 buffer for macro economic stress
- Implementation of Basel IV has been postponed by one year
- REA expected to drift upward

Nykredit Group capital ratios

	Capital policy	Q1/2020
Risk Exposure Amount (REA)		378.5bn
CET1		76.7bn
CET1 ratio	15.5 – 16.5%	20.2%
Total capital ratio	20 – 21%	23.0%
Leverage ratio		4.7
Pillar I		8.0
Pillar II		3.0
Solvency requirement		11.0

CET1 and Basel IV buffer*



* CET1 need based on a proforma 16% CET1 ratio. Source: Nykredit reports.

Strategic direction and covid-19 impact

We are open for business	▪ Branches and offices are closed for physical meetings but business activity is running at normal capacity ▪ 90% of Nykredit staff are working remotely, and all meetings are conducted digitally
Income from business	▪ NII up 5% since Q1/2019 ▪ Lower remortgaging activity has reduced NFI compared to elevated levels seen in H2/2019 ▪ Wealth Management income is growing due to new funds and Sparinvest integration Market turmoil in Q1 has reduced AuM
Costs	▪ Cost higher compared to Q1/2019 driven mainly by acquisitions but also by compliance ▪ Cost are down 8% compared to Q4, where very high remortgaging activity gave rise to increased costs ▪ Nykredit has a low and competitive structural Cost:Income ratio around 40%
Impairments	▪ DKK 1,150m 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 Q1 amounted to DKK 0.2bn – on par with previous quarters
Capital and funding	▪ Nykredit has very strong capitalisation and can draw on additional capital from shareholders if needed ▪ Funding in the Danish covered bond market is again showing its resilience ▪ We have both the capital and the funding base to seize business opportunities

Financial performance, credit and funding

CFO David Hellemann

Group income statement - Q1/2020 vs Q1/2019

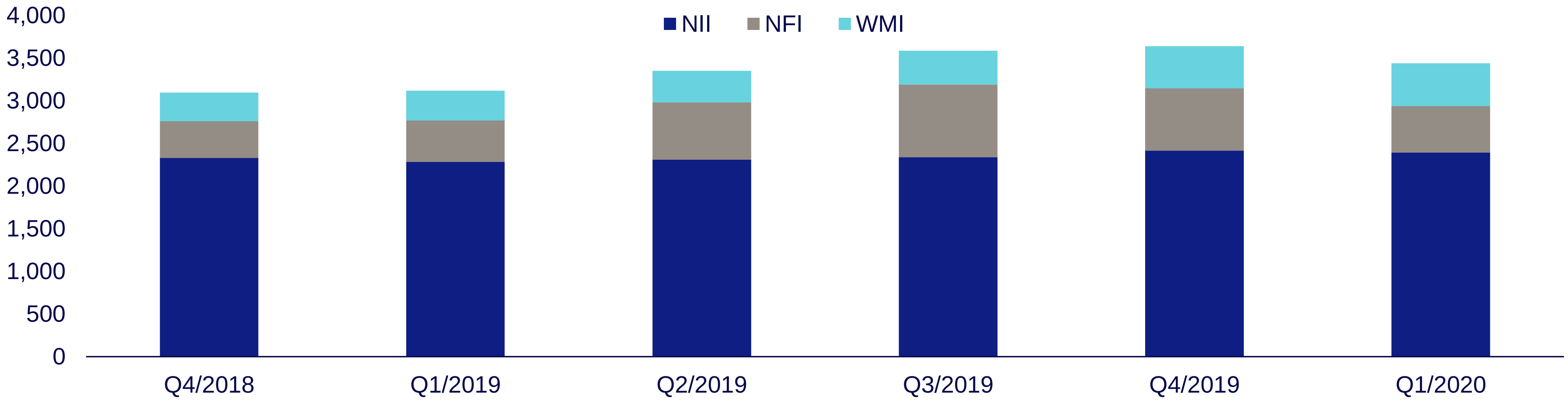
DKKm	Q1/2019	Q1/2020		
Net Interest Income	2,283	2,394	+5%	Driven higher by larger volumes and reduced by shift in mortgage product mix
Net Fee Income	484	542	+12%	Elevated remortgaging activity continued in Q1
Wealth Management Income	350	502	+43%	Positive effect of Sparinvest integration and organic growth in AuM
Customer benefits & capitalisation costs	(169)	(150)	-11%	Increasing capitalisation costs due to build-up of bail-inable debt. Lower costs related to customer benefits
Trading and Investment portfolio	679	(1,394)	-	Bank shares and derivatives main drivers of negative value adjustments
Costs	1,230	1,420	+15%	Sparinvest, Shared Valuation, compliance and increased business activity
Impairment charges	219	1,312	+499%	DKK 1,150m impairment charge related to covid-19. Impairments equal 10 bps
Business profit	**2,178**	**(838)**	**-**	**Underlying business developing well until mid-March when covid-19 set in**
Legacy derivatives	(219)	(421)	-92%	Value adjustment driven by higher credit and funding spreads
Profit before tax	**1,959**	**(1,259)**	**-**	**Loss entirely driven by covid-19 related factors**
Profit after tax	1,629	(882)	-	-

Group financial highlights Q1/2020 - income

Comments

- NII growing 5% due to higher loan volumes
- Margin compression in mortgage lending continues due to shift in product mix
  - More fixed rate loans
  - Less interest-only loans
- Declining remortgaging activity is reducing NFI after 3 very strong quarters in 2019
- Wealth Management Income growing due to inflow of funds and acquisition of Sparinvest

Development in NII, NFI and Wealth Management Income

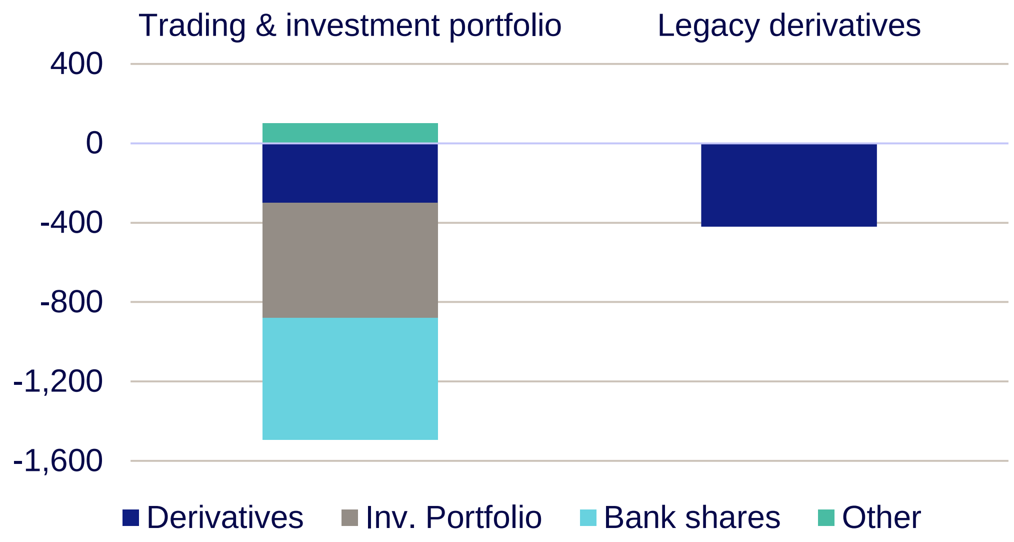


Trading, investment portfolio and derivatives hit by market turmoil

Significant negative effect

- Total negative value adjustments of DKK 1.8bn
- (1.4)bn from Trading & Investment portfolio driven by widening spreads and falling prices of shares in partner banks
- (0.4)bn from legacy derivatives
- Value adjustments are driven by lower interest rates via the funding value adjustments and credit adjustments

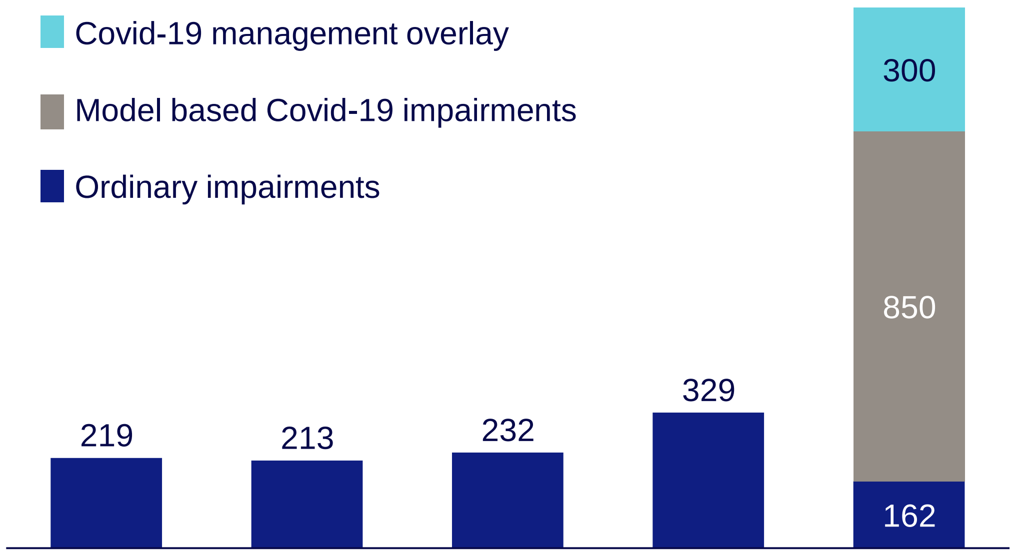
P/L effect, DKKm



Impairment charges increase due to expected covid-19 impact

- Underlying impairment charges broadly in line with previous quarters
- The covid-19 pandemic is expected to increase impairment charges significantly for 2020
  - Covid-19 impairment charge of DKK 1,150m in Q1
  - Primarily related to business mortgage exposures
  - Further impairments may follow in subsequent quarters
- The impact of the pandemic is very difficult to predict with any certainty
- We have not yet seen loan losses related to covid-19

Impairment charge of DKK 1,150m related to covid-19



Basis for covid-19 related impairments

- Pandemic related impairments of DKK 850m are based on three factors and determined by management judgement:

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

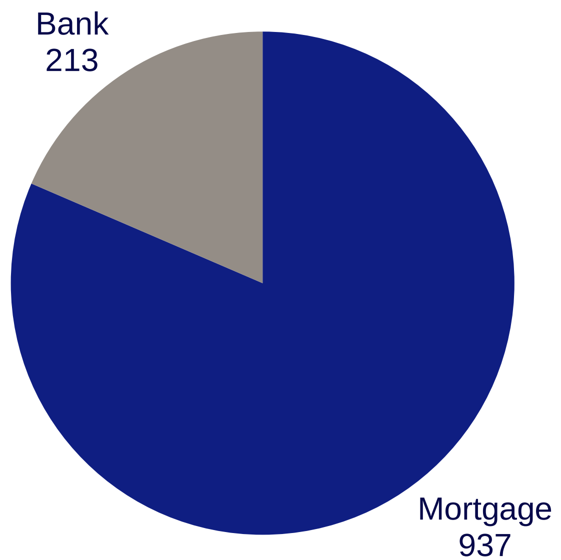
  2. Property values of customers at stage 3 have been stressed to simulate a reduction in collateral values

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

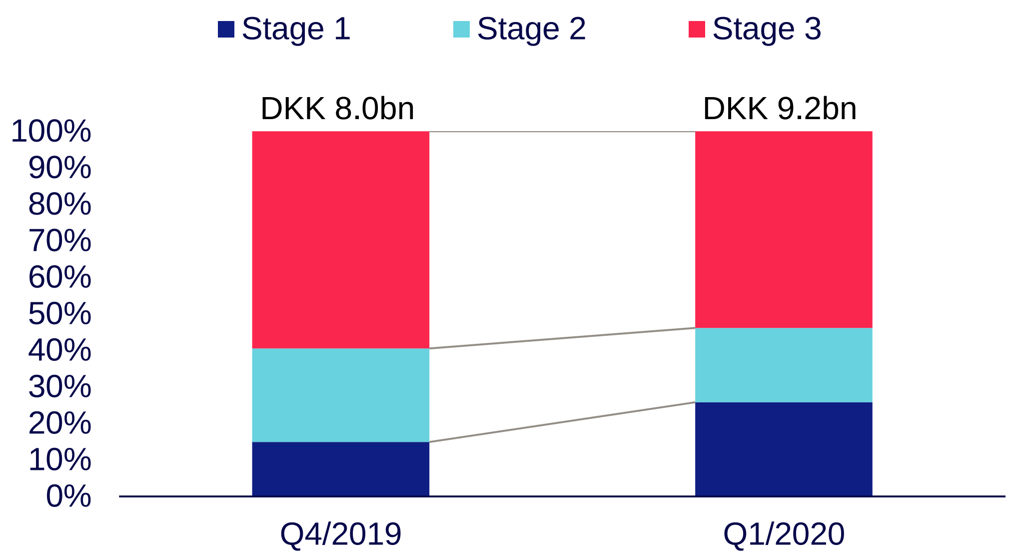
     Nykredit assigns a 65% probability to the base scenario, 35% to the adverse scenario and 0% to the positive scenario

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

Covid-19 impairment charges by type, DKKm



Development in IFRS 9 impairments by stage

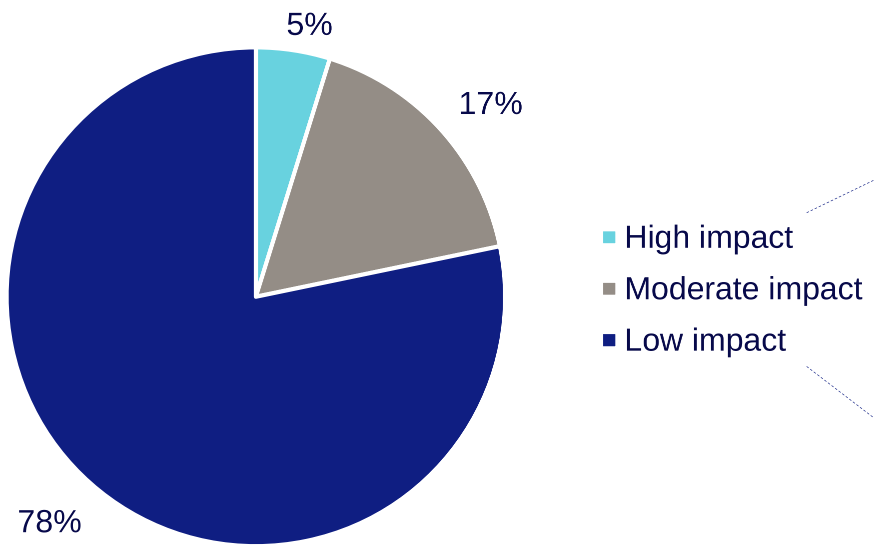


Loan portfolio risk and exposure to covid-19 impact

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



Covid-19

High impact
- Hotels/restaurants
- Non-food retail
- Transportation
- Construction
- Manufacturing

Moderate impact
- Coop housing
- Non-residential property rental
- Outside Denmark

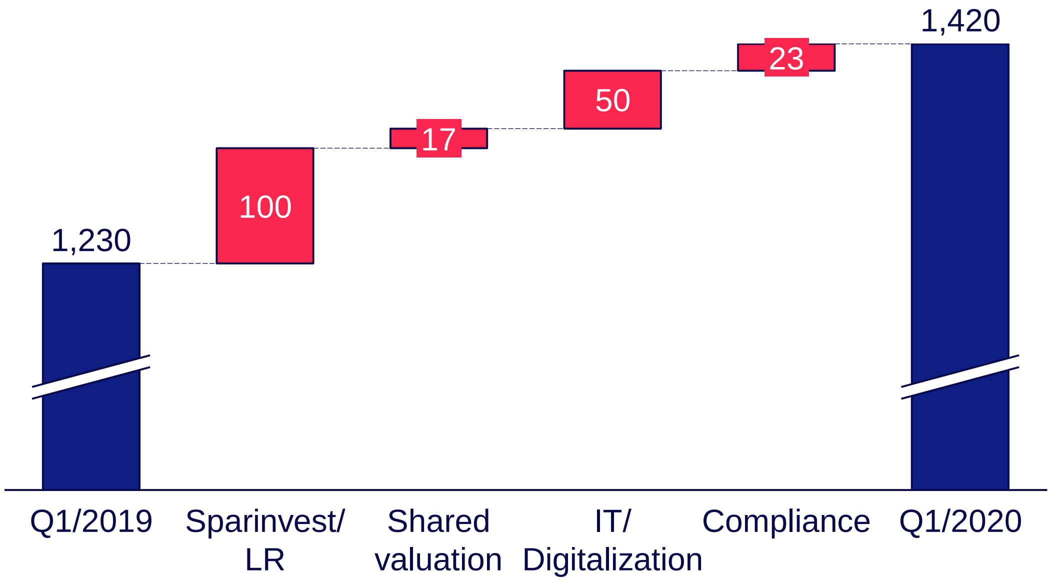
Low impact
- Agriculture
- Households
- Public housing
- Financial inst.
- Education
- Utilities

Cost development

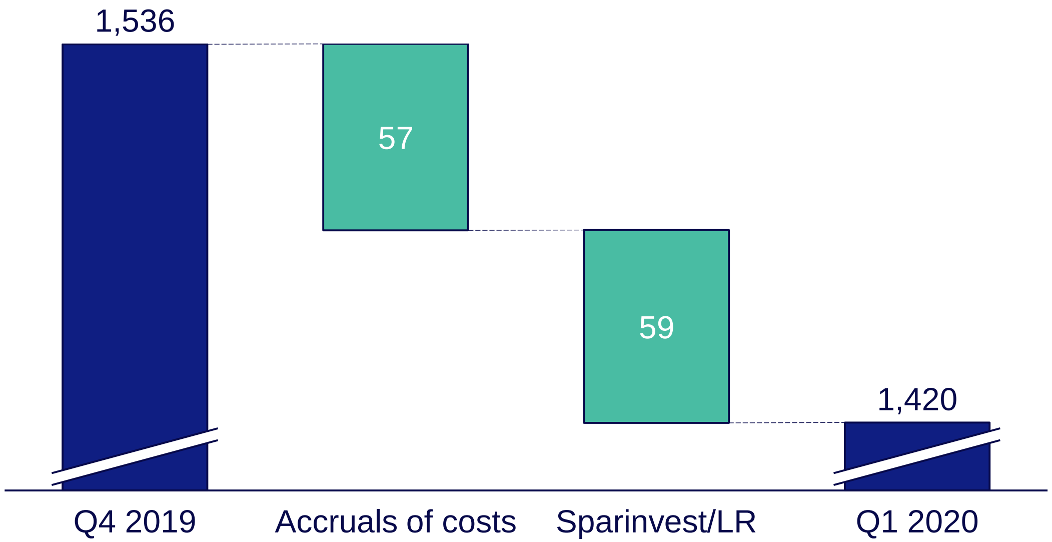
Nykredit has a low structural cost:income basis

- Acquisition of Sparinvest, LR Realkredit and implementation of Shared Valuation unit main drivers of cost increase since Q1/2019
  - Investments in our business development
  - Somewhat off-set by higher fees from AuM and Shared Valuation
- Costs also driven higher by compliance and IT
- Costs declining 8% from Q4/2019 to Q1/2020

Change in costs Q1/2019 vs Q1/2020, DKKm



Change in costs Q4/2019 vs Q1/2020, DKKm

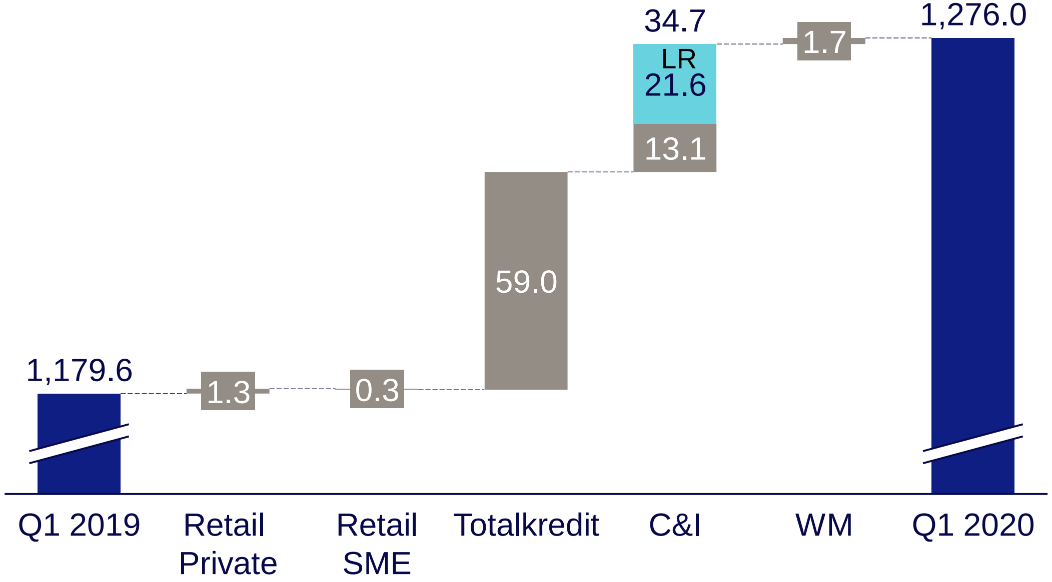


Business development – mortgage lending

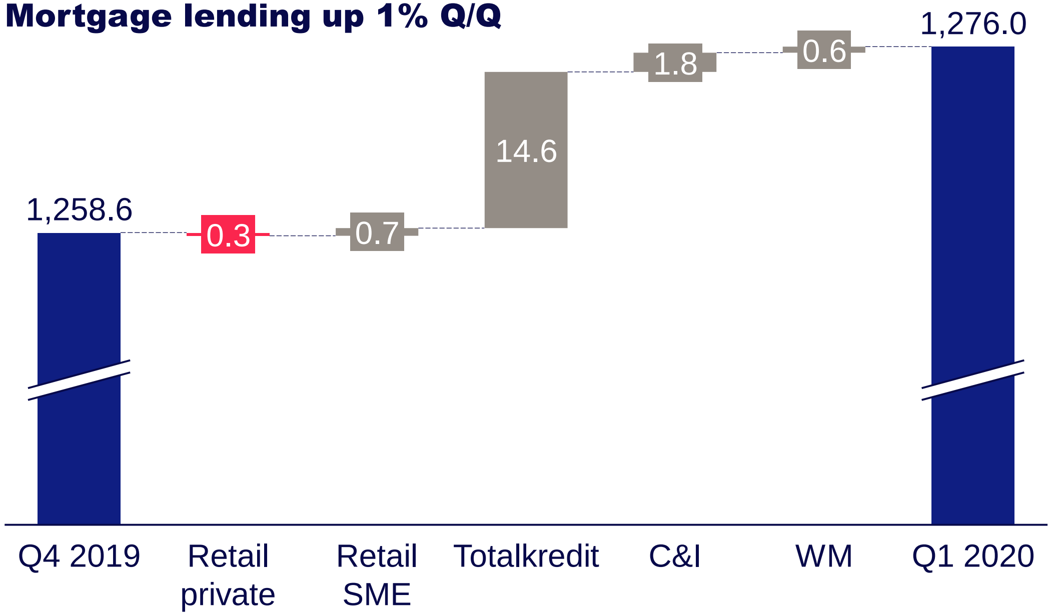
Continued growth

- Lending has increased DKK 96bn or 8% since last year
  - Of which 22bn relates to acquisition of LR Realkredit (C&I)
- The main driver of growth remains Totalkredit with DKK 59bn
- Nykredit and Totalkredit partner banks keep gaining market share

Mortgage lending up 8% Y/Y



Mortgage lending up 1% Q/Q

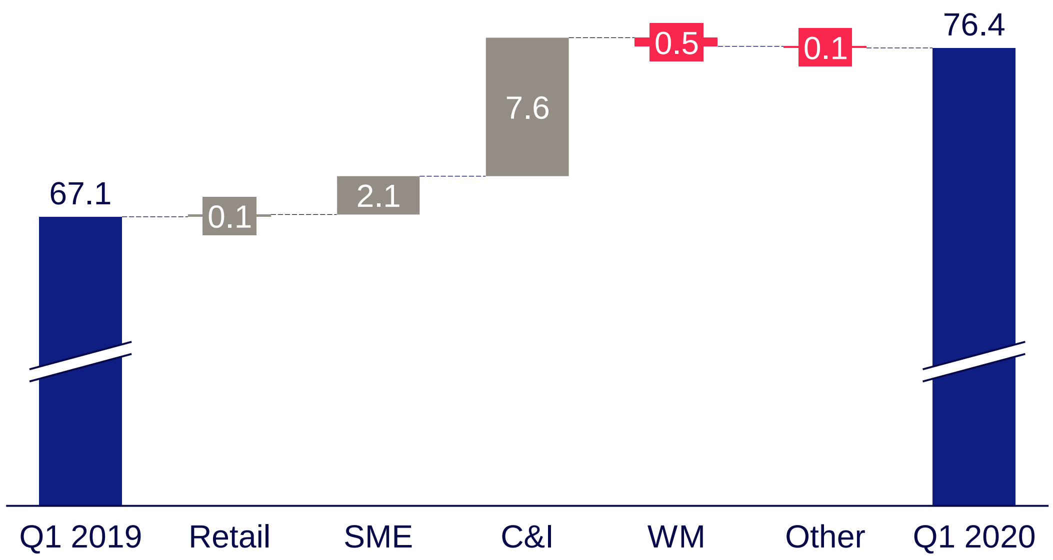


Business development – bank lending*

Strong growth in bank lending...

- Bank lending up 14% since Q1/2019
- Corporates & Institutions the main driver
- SMEs account for the rest

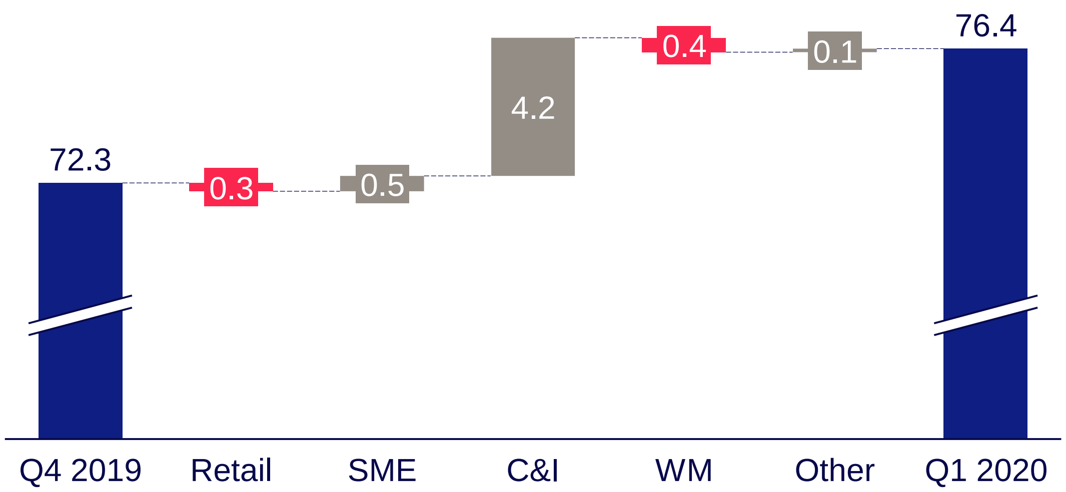
Bank lending up 14% since last year



...especially in Q1/2020

- 6% growth in bank lending since Q4/2019
- C&I customers utilise existing credit lines
- Still muted demand for bank loans from households

Bank lending up by 6% in Q1



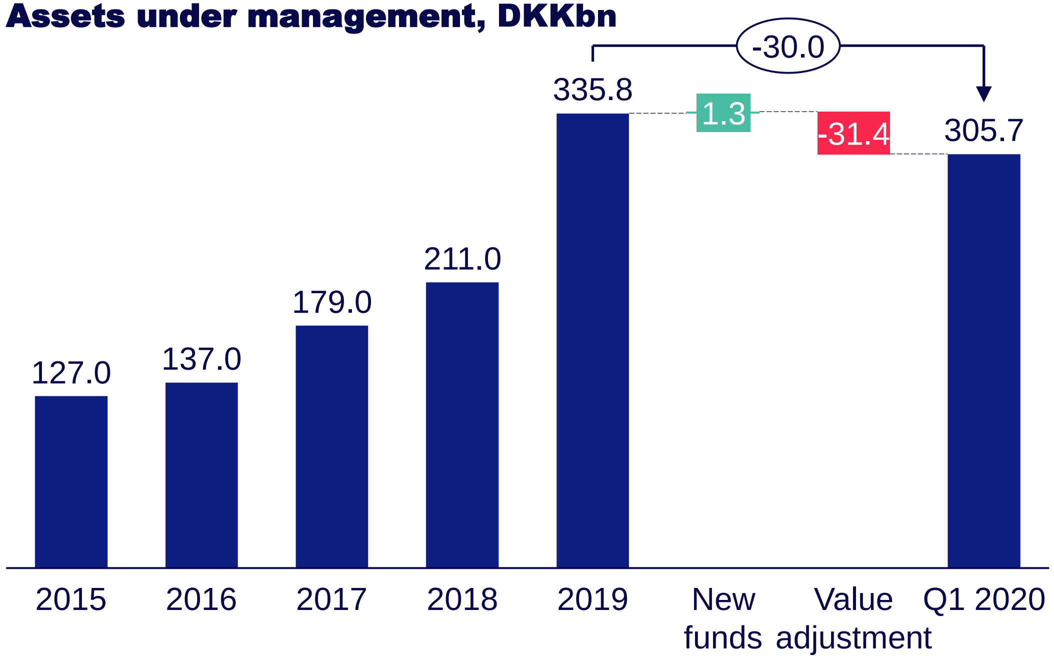
* Including Secured home loans transferred to Totalkredit

Business development – Wealth Management

Wealth Management

- AuM has increased by DKK 76bn net since Q1/2019
- In Q1 we saw large negative value adjustments due to covid-19 related market turmoil
- Positive inflow of DKK 1bn of funds in Q1

Assets under management, DKKbn



Several factors are expected to exert upward pressure on REA

The starting point	▪ REA virtually flat at DKK 379bn in Q1 despite loan growth and market turmoil
Credit risk	▪ In the medium turn covid-19 is expected to weaken some customers, which will lead to higher REA ▪ Higher nominal loan volumes were off-set by declining bond prices in late Q1 leaving REA from mortgage lending broadly unchanged ▪ Higher bond prices in April has somewhat erased this, which will lead to higher REA
Market risk	▪ Market turmoil will increase REA from market risk via stressed VaR models ▪ Impact will show in Q2 and beyond
Risk models	▪ Phase in of regulatory changes to IRB-models and market risk model updates are expected to increase REA over time

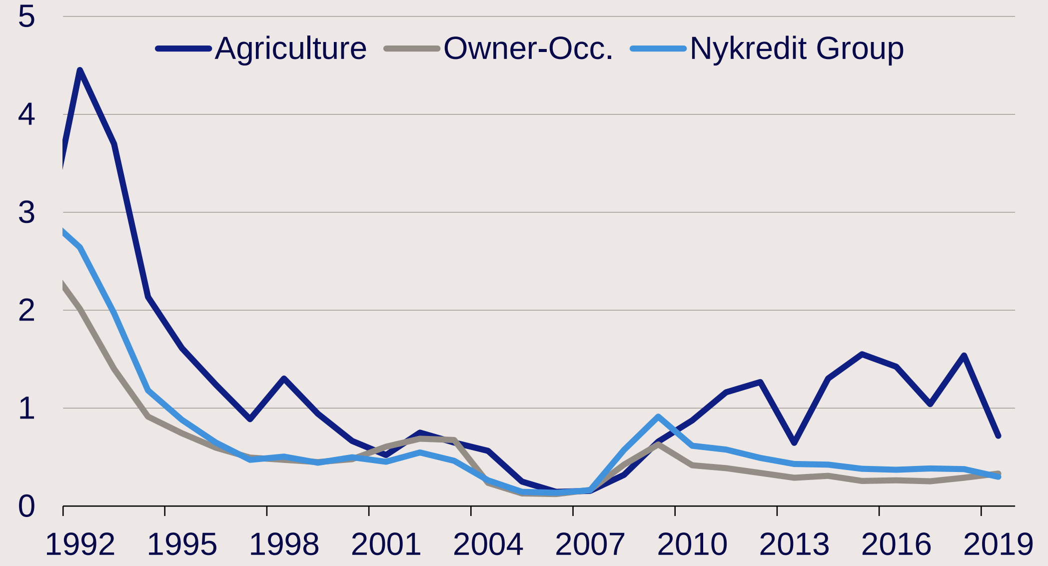
These factors are estimated to gradually increase REA some 10 – 20% over the coming 2 years

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

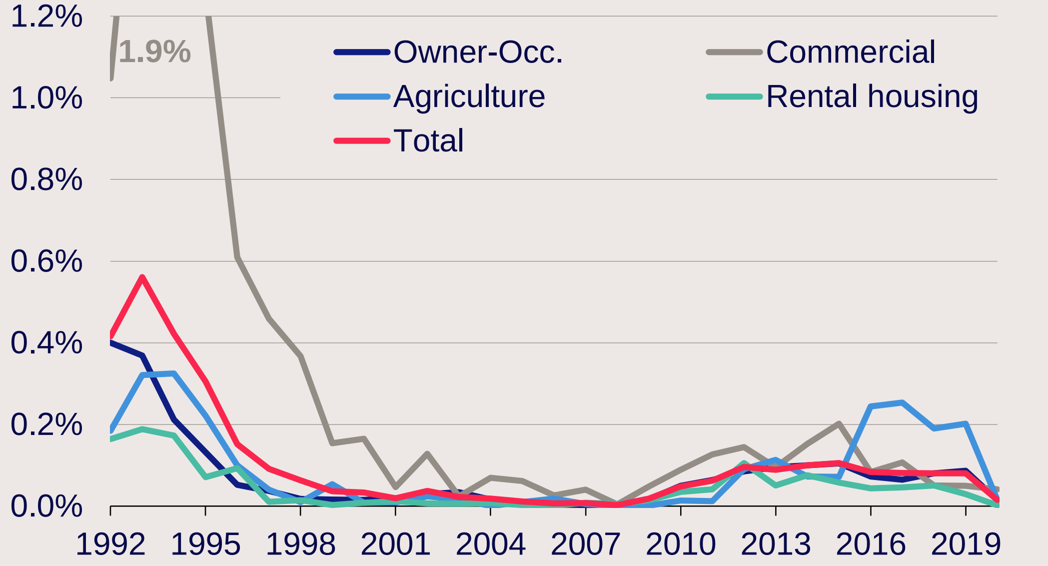
Credit quality

- 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

Funding plans and ratings

Covered bond funding

- Nykredit has issued new covered bonds every day in Q1
- Quarterly refinancing auctions of DKK 37bn in covered bonds begin on 11 May

Other funding plans

- Nykredit will increase the amount of bail-inable liabilities from currently DKK 120bn to 135-145bn by end-2021
  - DKK 7.5bn has been issued in Q1 in SNP format
- Nykredit expects to issue DKK 10-15bn during the remainder of 2020
  - Primarily in senior format

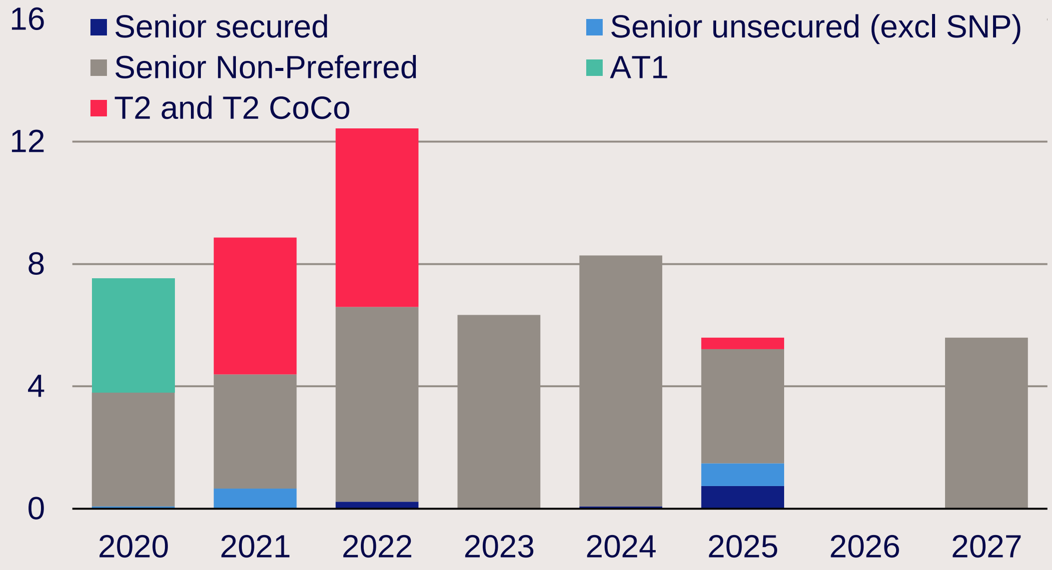
LCR

- Nykredit Realkredit Group LCR: 385%
- Nykredit Bank LCR: 166%

Rating development

- On 31 March Fitch affirmed Nykredit's Long-Term IDR at "A"
- Outlook revised to "Negative"

Nykredit Group maturity* profile, DKKbn



Fitch's comments on 31 March 2020

We have affirmed Nykredit's 'A' Long-Term IDR and 'a' Viability Rating (VR) and **revised the Outlook to Negative** from Stable because we believe the economic fallout from the coronavirus crisis represents a medium-term risk to the ratings. However, **the bank enters the economic downturn from a relative position of strength, given its conservative risk appetite, which has resulted in healthy and resilient through-the-cycle asset quality to date and robust capitalisation.** [...]

Nykredit emphasis

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

Q1/2020 summary – profit guidance for 2020

Later part of Q1 in the shadow of covid-19	■ Satisfactory volume growth in both mortgage lending and bank lending ■ Core income line – NII, NFI and Wealth Management Income – up 10% since last year ■ Trading, investment portfolio and derivatives contribute a loss of DKK 1.8bn driven by covid-19 related market turmoil ■ Costs increasing as Sparinvest is now included in the numbers. Shared Valuation and compliance drives costs higher as well. ■ Impairments are fundamentally low. Covid-19 related impairments of DKK 1,150m ■ Profit before tax of DKK (1.3)bn ■ In light of the heightened uncertainty the Board of Directors have postponed the decision on dividends for 2019 ■ Nykredit is open for business and is operating virtually as usual
2020 guidance	■ 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 on-going covid-19 pandemic, guidance for 2020 is revised to DKK 2.5-3.5bn

Source: Nykredit company reports

Appendix

7 May 2020

Q1 vs. Q4: Good start and then negative impact from COVID-19

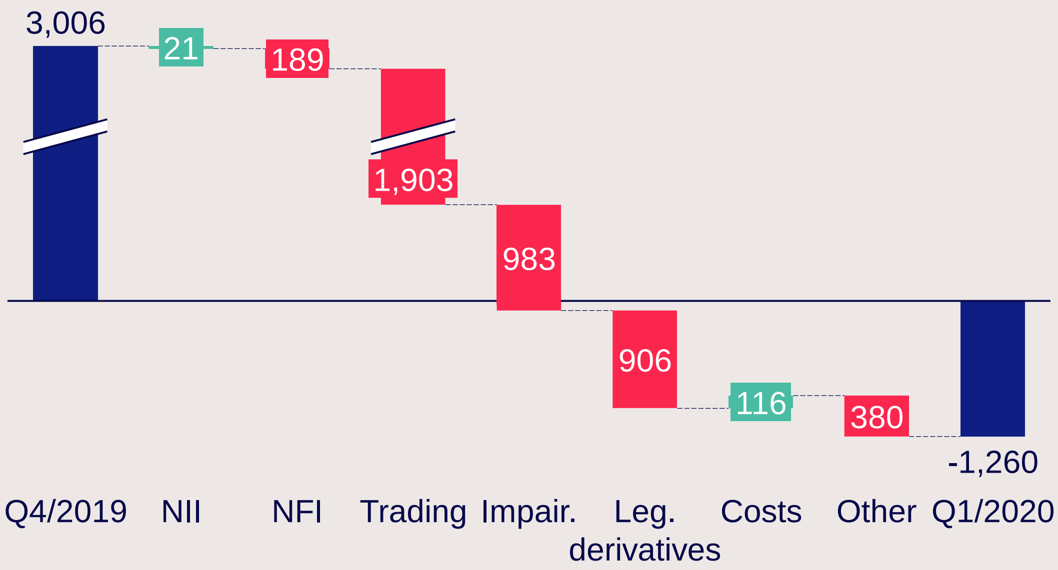
Strong NFI, but trading and investment income weaker

- Decrease in income driven primarily by Trading & Investment portfolio income
  - NII down 1%
  - Net fee income 26% lower than Q4 as remortgaging activity slowed down
  - Wealth management income up 2%
- Drop in share price of banks and credit spread widening resulted in a loss of DKK 1,394m in Trading, investment portfolio and other income
- Costs 8% lower than Q4, which was affected by the integration of Sparinvest
- Higher impairment charges driven by the COVID-19 pandemic. Low realised losses and write downs in Q1 due to strong economic environment up till the outbreak of COVID-19
- Business profit of DKK -838m compared with DKK 1,957m for Q4/2020
- Legacy derivatives recorded a negative value adjustment of DKK - 421m as credit spreads widened
- Profit before tax of DKK -882m compared with 2,581m in Q4/2019

Business results Q4/2019 vs Q1/2020

DKKm	Q4/2019	Q1/2020	Index
Income	3,823	1,894	50
- Net interest Income	2,415	2,394	99
- Net fee income	731	542	74
- Wealth management income	494	502	102
- Net interest from capitalisation	-90	-105	83
- Net interest income from customer benefit programmes	-236	-45	-
- Trading, investment portfolio and other income	509	-1,394	-
Costs	1,537	1,420	92
Business profit before impairment charges	2,287	474	21
Impairment charges	329	1,312	399
Business profit	1,957	-838	-
Legacy derivatives	485	-421	-
Badwill	564	-	-
Profit before tax	3,006	-1,259	-
Tax	426	-377	-
Profit	2,581	-882	-

Change in profit before tax from Q4 to Q1/2019, DKKm



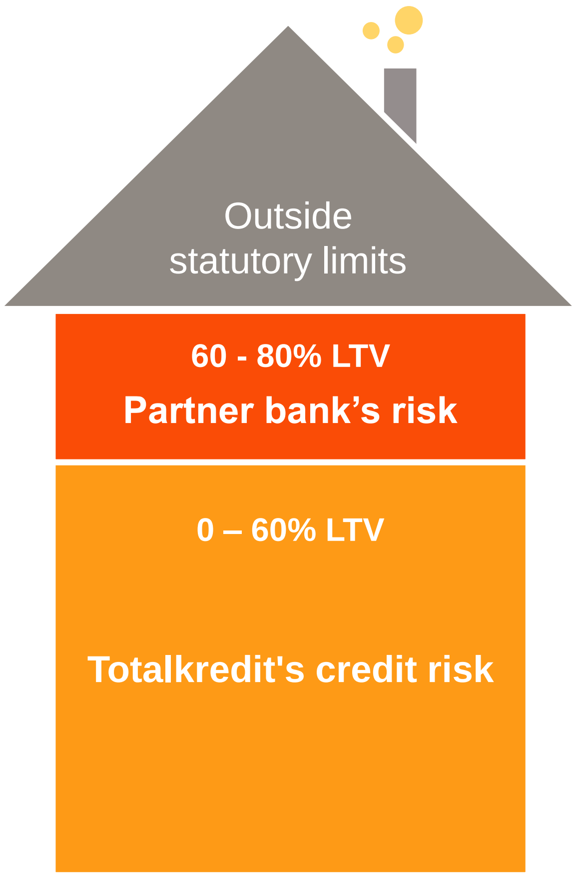
Source: Nykredit company reports

Risk sharing model in Totalkredit

Partner banks cover part of loan-losses in Totalkredit

- Lending originated by partner banks are covered by risk sharing model
  - Owner-occupied dwellings
  - Summer houses
  - Commercial real estate
- Partner banks bear the credit risk of the highest LTV-part of the loan
- The referring partner bank covers approx. 50% of the losses
- Risk sharing is based on a combination of guarantees and set-off against commissions paid by Totalkredit to the partner bank
- The partner bank receives approx. 50% of margin income covering
  - Credit risk
  - Serving the customer

Risk sharing model for Totalkredit mortgage lending



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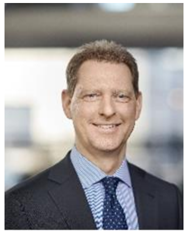

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