

Nykredit Group

Q1/2016 financial results call

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12 May 2016



Nykredit

Highlights from Q1 2016

- Nykredit announced plans for an IPO, intention to sell domicile and increased margins on retail mortgages
- Profit from core business increased by 9% to DKK 1,637m compared to Q1/2015
- Core income from business operations 12% lower than Q1/2015 which saw significant re-mortgaging activity
- Costs reduced by 5% compared to Q1/2015 – cost:income ratio of 40.3%
- Impairment losses shows a reversal of DKK 51m vs. a cost of DKK 329m in Q1/2015
- Value adjustments of interest swaps of DKK -858m compared to -992m in Q1/2015
- Investment portfolio income DKK 60m vs. DKK 445m in Q1/2015
- Profit before tax up 1% compared to Q1/2015 equal to ROE before tax of 5.4% pa
- Total mortgage loan portfolio broadly unchanged compared to Q1/2015

9% growth in profit from core business

DKKm	2015	Q1/2015	Q1/2016	Index
Core income from business operations	11,945	3,290	2,892	88
Securities and debt (senior and subordinated)	(572)	(239)	(107)	
Income from core business	11,373	3,051	2,785	91
Operating costs, depreciation and amortisation	5,005	1,223	1,165	95
Danish resolution fund	61	-	34	-
Core earnings before impairment losses	6,307	1,828	1,586	87
Impairment losses on loans and advances	920	329	(51)	-
Core earnings after impairment losses	5,387	1,499	1,637	109
Value adjustments of derivatives	410	(1,061)	(802)	-
Goodwill adjustments	1,965	-	-	-
Investment portfolio income	853	445	60	13
Profit before tax	4,685	883	895	101
AT1 interest payable classified as dividend	197	22	58	-
Value adjustment of strategic equities against equity	7	157	(16)	-

Source: Nykredit Q1/2016 report

Core earnings lower than strong Q1/2015, costs declining

Business plan 2018

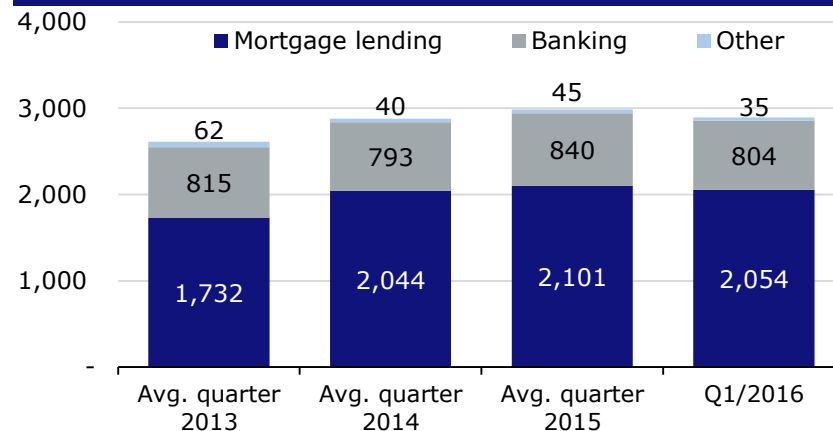
- Improve core business results by DKK 1.5bn by end-2018
- Improvement in core business result includes cost reductions of DKK 250m
- Target for pre-tax return on equity of 11% by end-2018

Group facts	Q1/2016
Total assets, DKK	1,400.2bn
Risk Exposure Amount (REA)	310.1bn
Total capital ratio	24.0%
CET1 ratio	19.5%
Leverage ratio	4.3%
S&P RAC ratio (July 2015)	10.6%
Senior ratings (S&P/F)	A/A
ROE before tax ¹	5.4%
Profit from core business, % pa of avg eqt	10.2%

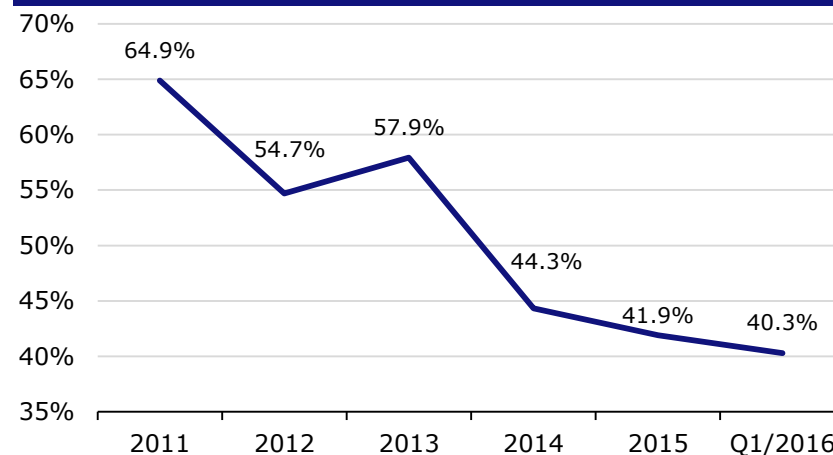
¹ Annualized profit (loss) before tax including interest on AT1 divided by average equity for the period

Source: Nykredit Q1/2016 report

Core earnings from business operations, DKKm

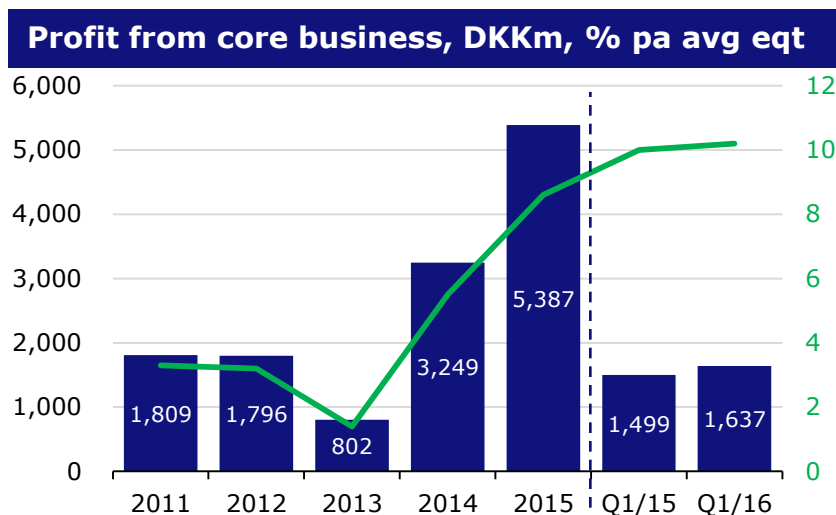


Group cost:income ratio



Note: Operating costs, depreciation and amortisation, excl special value adjustments as % of core earnings from business operations

10.2% profit from core business - as % of avg. equity pa



Revised earnings guidance

- In the Annual Report 2015, Management's forecast of profit from core business result was DKK 4.1bn – 4.6bn for 2016
- Full-year profit guidance revised upward by DKK 400m to around DKK 4.5bn – 5.0bn

Total lending broadly unchanged

Lending, nominal value DKKbn	2014	2015	Q1/2016
Mortgage lending	1,111.7	1,117.6	1,112.5
- Commercial	185.0	184.2	180.8
- Retail	926.7	933.5	931.7
Bank lending	50.5	46.7	50.0
Total lending	1,162.2	1,164.4	1,161.5

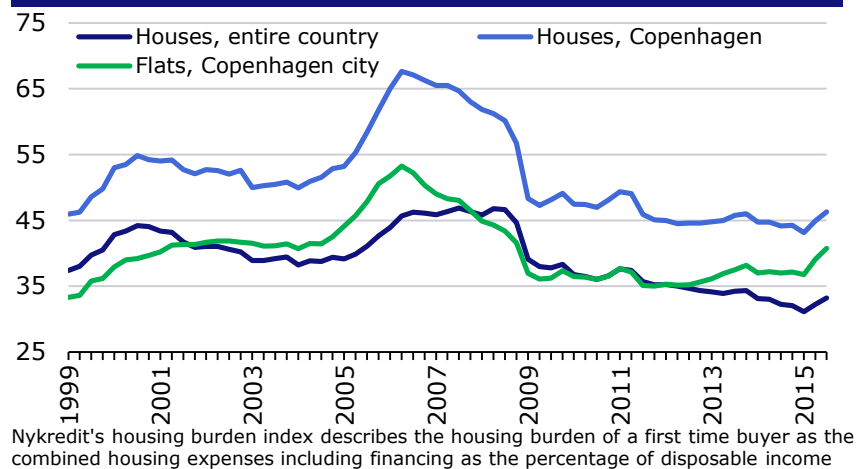
Source: Nykredit Q1/2016 report

Danish housing market recovering

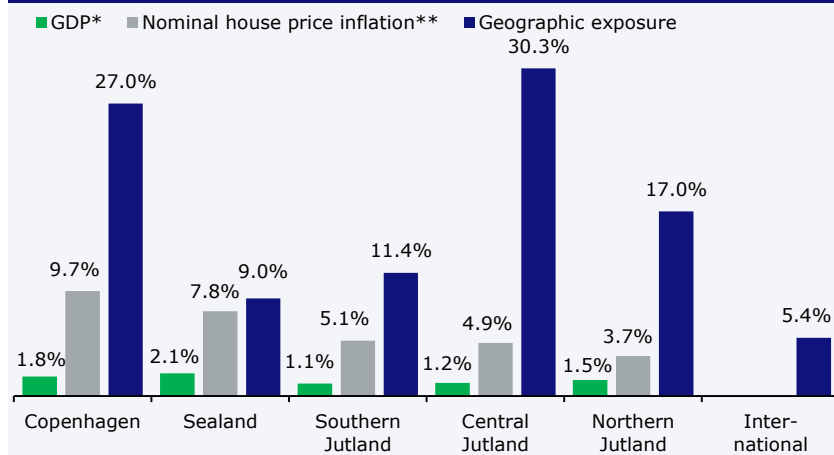
Danish real house price inflation



Housing burden, % of disposable income

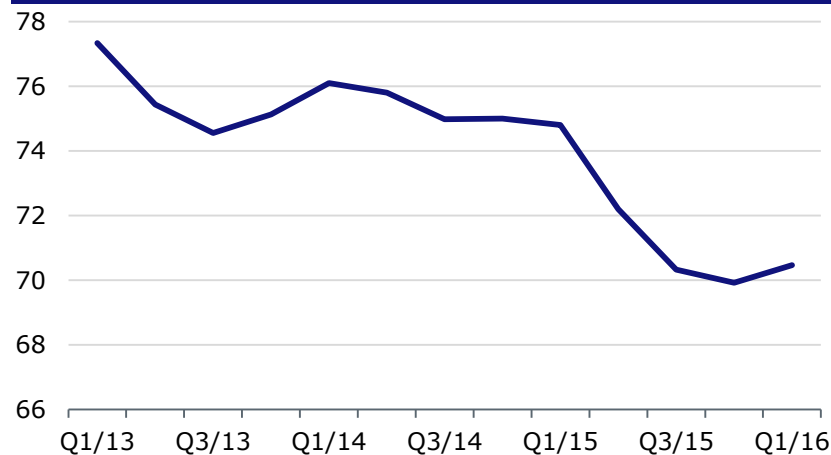


Housing market and Nykredit's exposure



Source: Macrobond, Nykredit Markets, Statistics Denmark
 * FY-2014; **Residential housing in 2015

Avg. LTV for Nykredit's owner-occupied

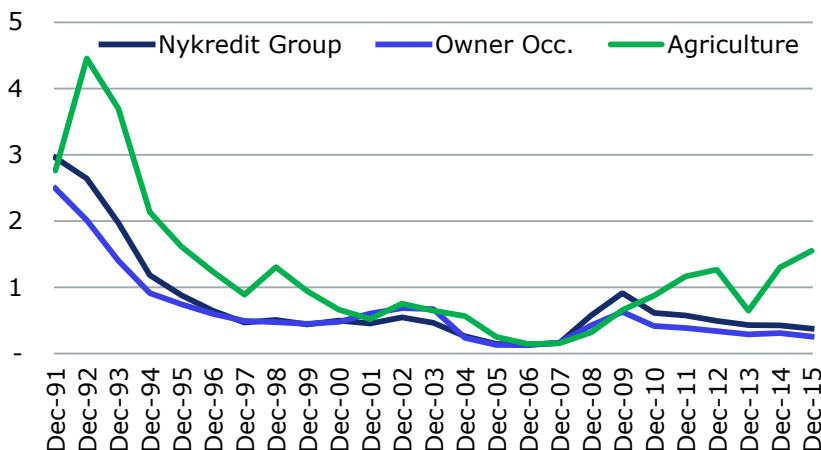


Arrears ratios improving – except for agriculture

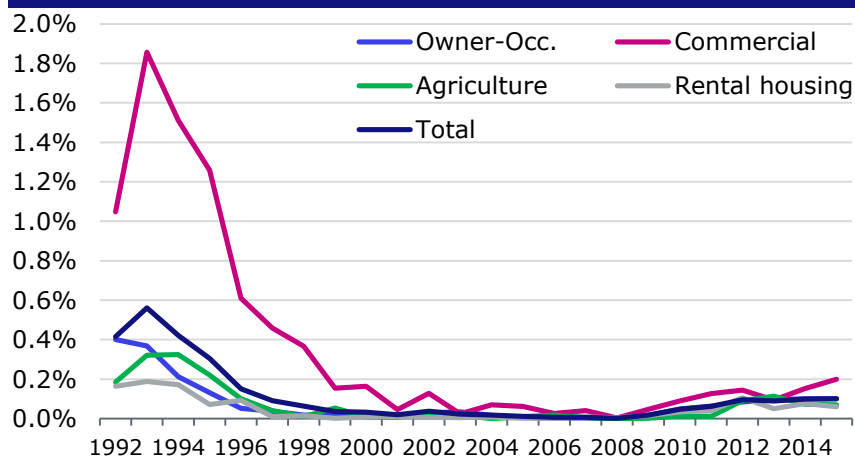
Mortgage lending: Indexed LTVs (current house prices)

	0-40%	40-80%	> 80%	Avg LTV	Share
Residential	46.4%	27.7%	2.4%	69.9%	76.6%
Commercial	10.0%	2.5%	0.1%	51.1%	12.6%
Agriculture	6.6%	2.3%	0.2%	57.4%	9.2%
Other	1.3%	0.3%	0.0%	51.1%	1.6%
Total	64.3%	32.9%	2.8%	64.6%	100.0%

75-day arrears, %

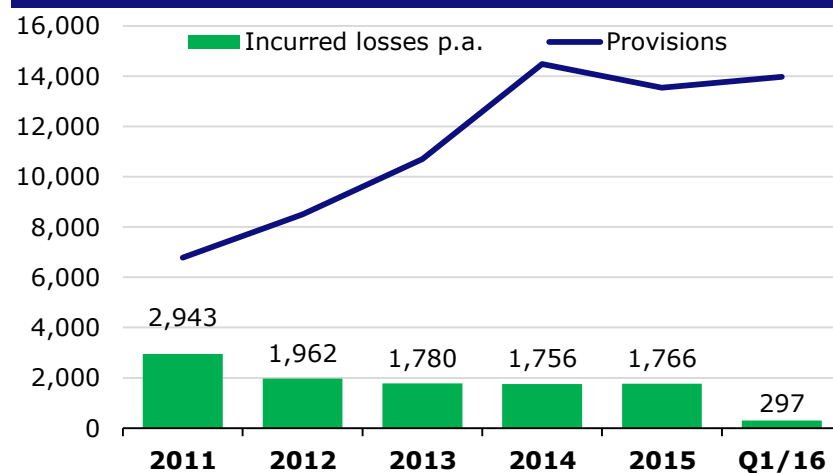


Mortgage lending: Incurred loss as % of debt



The LTV is calculated on the basis of the top LTV bracket for the loans granted
Source: Nykredit Q1/2016 Report, Cover Pool disclosure reports

Total provisions and incurred losses, DKKm

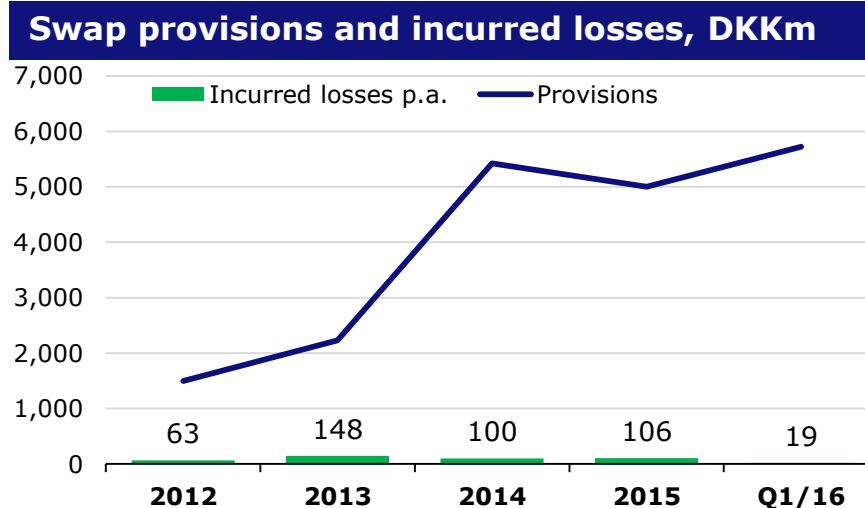


Conservative Group CVA and impairment provisions

- Credit Value Adjustments on swaps with customers
 - Falling interest rates leads to larger claims on customers
 - Conservative valuation guidelines from the DFSA regarding rental housing and cooperative housing associations including swap exposures
 - Legal risk related to Nykredit's claim against cooperative housing associations with swaps
 - The Supreme Court ruling yesterday will not affect Nykredit's impairment provisions as bankruptcy risk in the cooperative housing sector is already factored in
- CVA provisions are sensitive to changes in the long swap rate
 - 100 bps. change in swap rates leads to approx DKK 2bn change in CVA provisions

Fixed-rate swaps and step-up interest derivatives			
Q1/2016	Negative market value	Total impairment provisions*	Impairment provision, % of market value
DKKbn / %			
Housing cooperatives	7.9	4.4	56%
Agriculture	1.3	0.4	28%
Other	8.3	0.9	11%
Total	17.6	5.7	32%

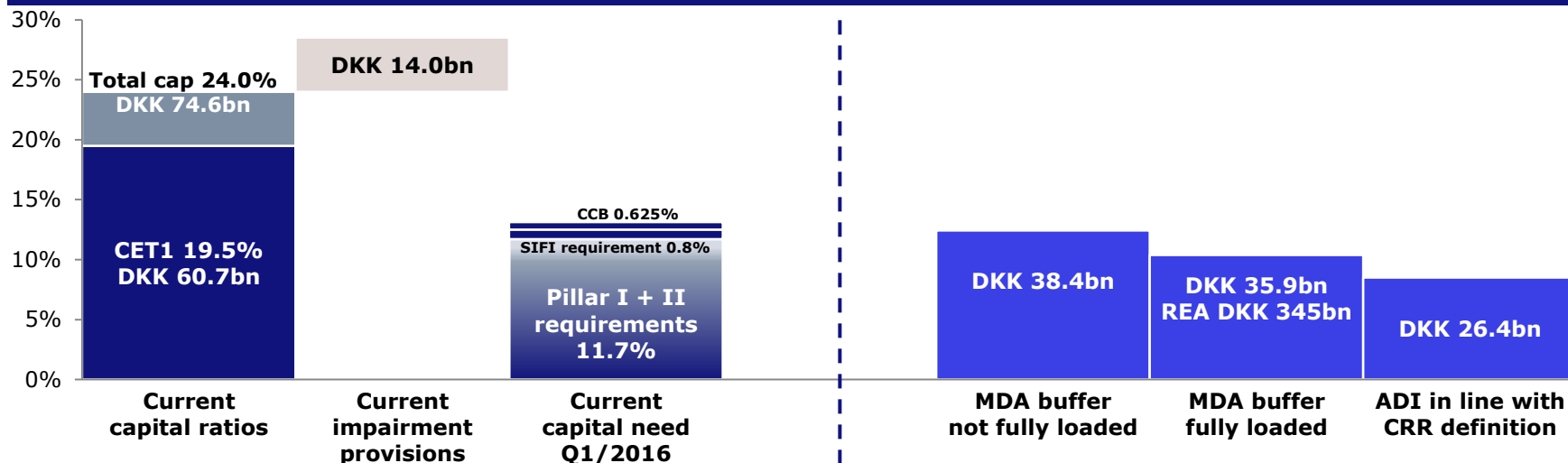
* Individual value adjustments, management judgement and CVA



Source: Q1/2016 Reports of Nykredit Realkredit and Nykredit Bank, Fact Book

Nykredit has significant leeway to current capital requirements

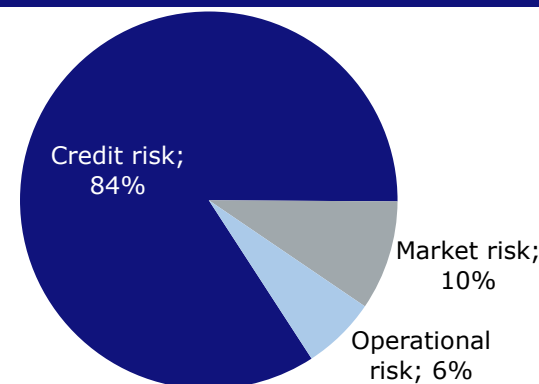
Conservative impairment buffers adds to capital strengths (transitional rules*)



Capital and REA

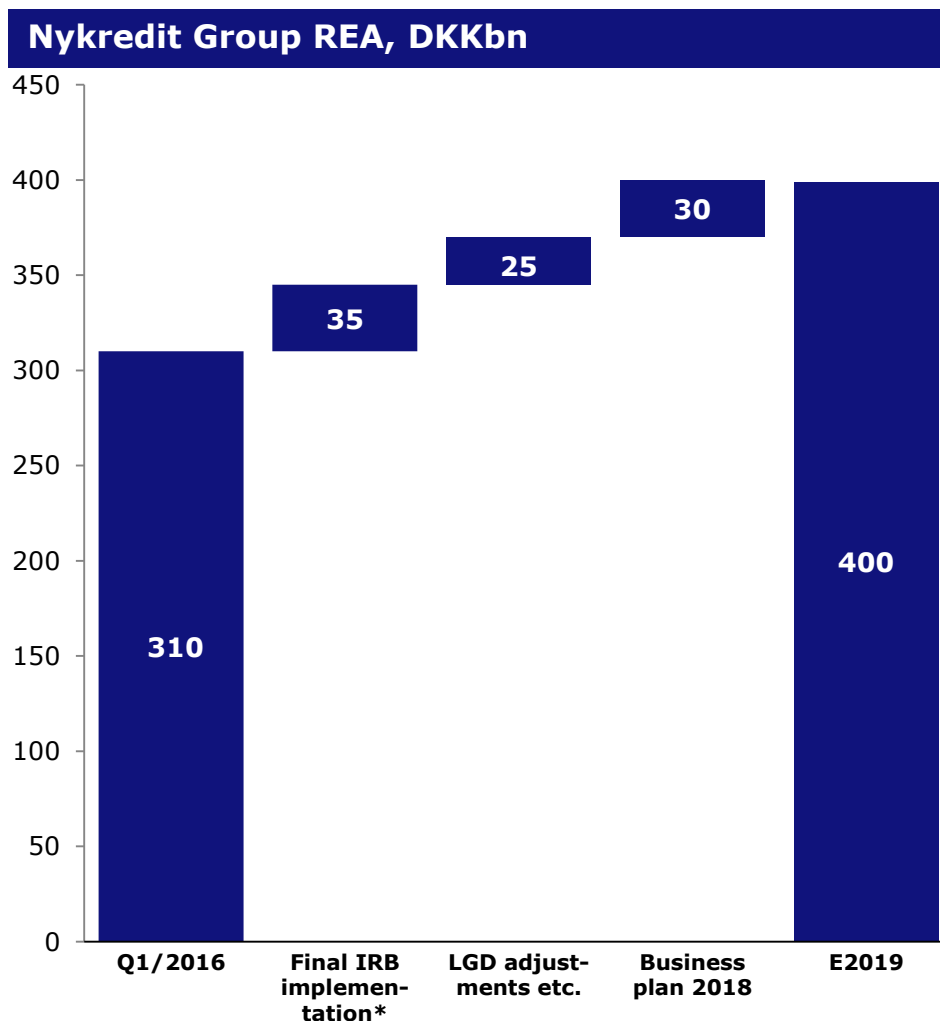
- Q1/2016 REA equals DKK 310bn, unchanged from Q4/2015
- Current capital need equals DKK 36.3bn plus DKK 4.4bn to cover SIFI and Capital Conservation Buffer

Nykredit Group risk exposure



* Unless otherwise stated
MDA calculated according to EBA guidelines
Source: Q1/2016 Reports of Nykredit Realkredit and Fact Book

Development in Risk Exposure Amount



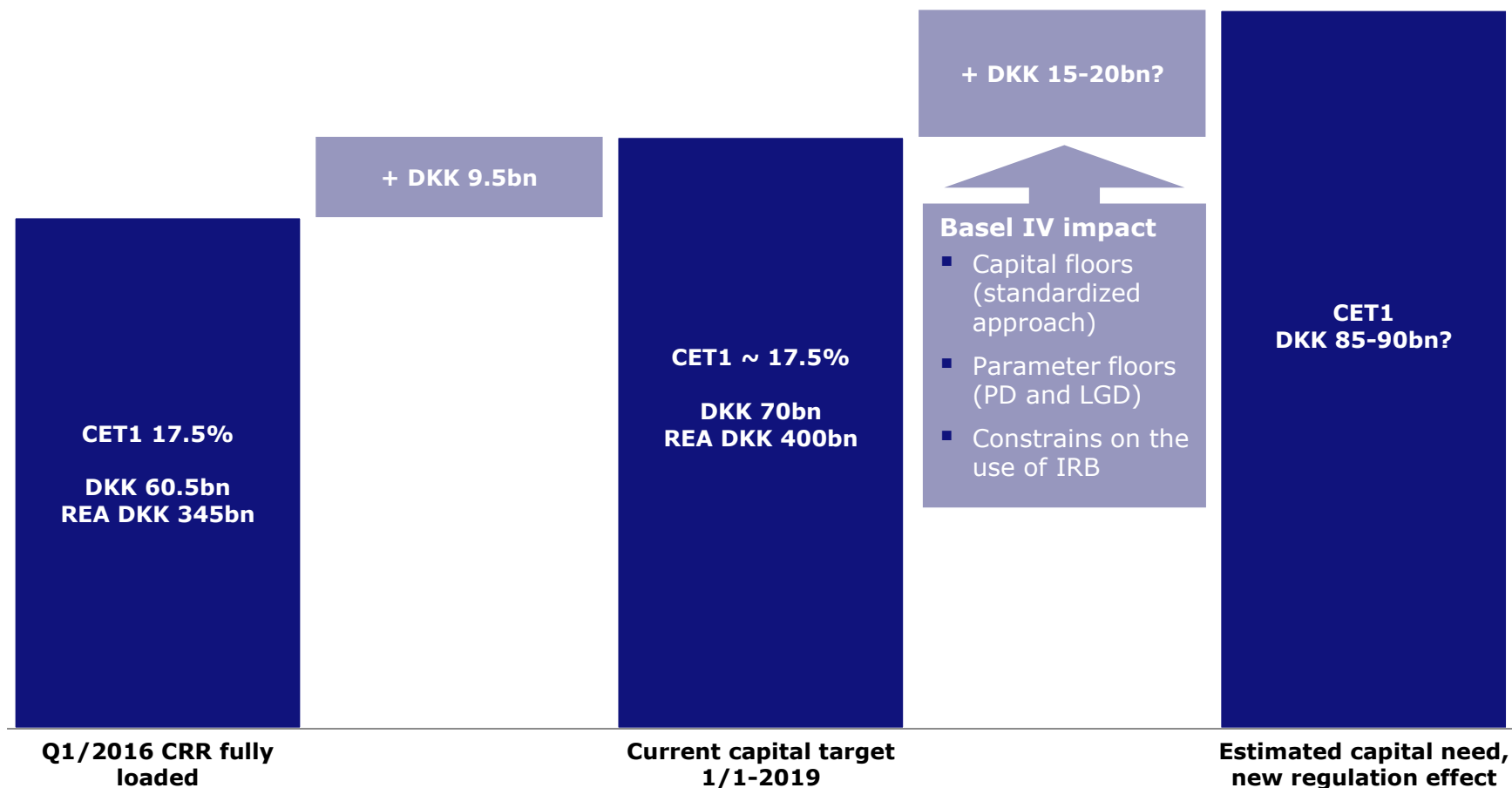
Expected REA adjustment until 2019

- The Nykredit Group's total REA amounted to DKK 310bn at Q1/2016.
- A number of adjustments to Nykredit's models are currently awaiting the approval of the Danish FSA. Upon approval, REA will increase by an estimated DKK 35bn, resulting in total REA of DKK 345bn. The increase primarily relates to the mortgage business.
- To this should be added adjustments to the detailed capital requirement calculations, resulting in part from the loss experience in the wake of the financial crisis. These adjustments are expected to add another DKK 25bn to REA, leading to a total of DKK 370bn.
- Business Plan 2018 is expected to increase REA by another DKK 30bn towards 2019. Altogether, the capital requirement, measured by REA, will amount to an estimated DKK 400bn in 2019.

* Relates to final implementation of Advanced IRB model for commercial exposures
Source: Nykredit Q1/2016 Report and Risk and Capital Management report

Nykredit needs more capital in the longer run

Nykredit's capital targets and ratios (CRR fully loaded)



Source: Nykredit Q1/2016 Report, Fact Book and presentation in IPO announcement

Senior rating outlook primarily driven by BRRD

- Short term funding impact on ratings declining

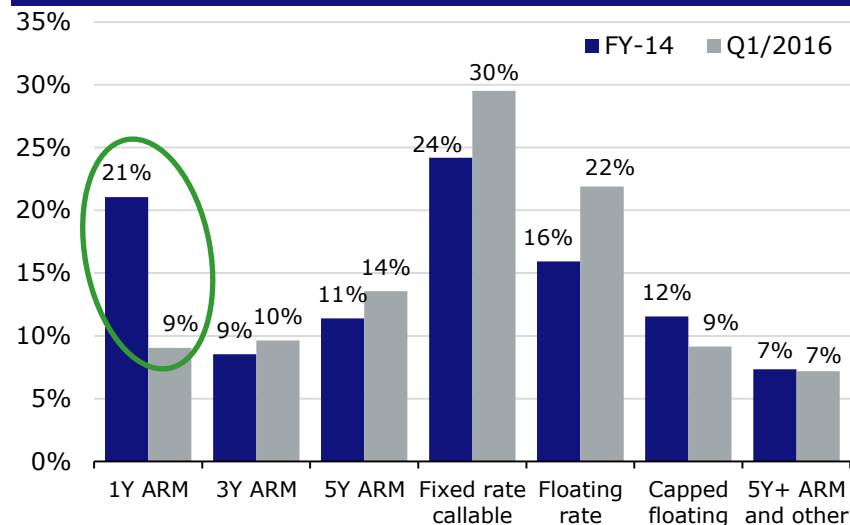
Nykredit ratings	STANDARD &POOR'S	FitchRatings
Covered bonds	AAA	-
Senior unsecured debt	A	A
Short-term debt	A-1	F1
Outlook	Negative	Stable
Tier 2	BBB	A-
Tier 2 CoCo	BBB	BBB
Additional Tier 1	BB+	BB+

S&P review of systemic uplift

- S&P removed 2 notches of systemic uplift from Nykredit's senior unsecured rating...
- ... however the senior unsecured rating was only lowered 1 notch to 'A' due to sufficiently expected ALAC buffers
- Nykredit expect to issue sufficient ALAC eligible instruments to surpass ALAC threshold of 5% of RWAs for a 1 notch uplift

Source: Nykredit Q1/2016 report and Rating reports

Nykredit loan portfolio composition progress



Extension of funding profile

- Reliance on 1-2 year funding has been a concern by S&P
- Nykredit has reduced short funding significantly
 - Volume reduced by 2 %-points in Q1/2016 to 9% of mortgage loan portfolio
 - Nykredit expects to continue reducing short term funding
- Customers are increasingly opting for loans with funding terms longer than 3 years

Funding

Funding plans

- Nykredit expects to fill need for ALAC eligible instruments for EUR 2-3bn during 2016 and 2017

ALAC instrument will be issued out of OpCo Nykredit Realkredit A/S

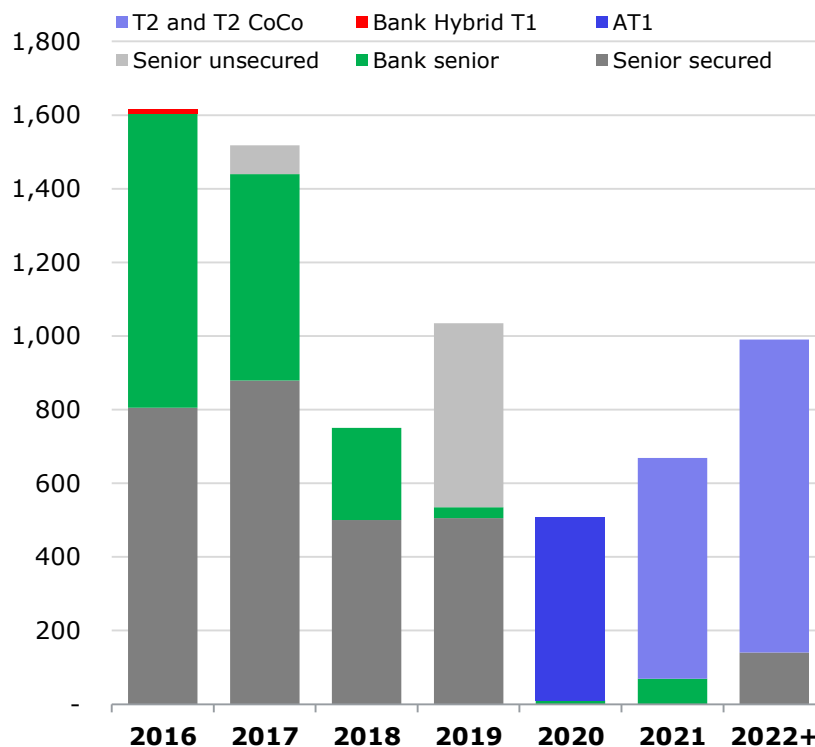
- Contractual loss absorption in resolution
- ALAC eligibility criteria incentivises 3-5 year maturities

- Tap issuance and 4 annual auctions of covered bonds
- On-going interest in the short end of the curve (CP/CD or EMTN)

Source: Nykredit Q1/2016 Report

Nykredit Group maturity profile, EURm

- Profile excluding covered bonds, CP and deposits
- LCR levels end-Q1 2016:
Nykredit Realkredit Group: 278%
Mortgage institutions: 904%
Nykredit Bank A/S: 135%





Nykredit Group – financial ratios

	2012	2013	2014	2015	Q1/16
Profit for the period					
- As % pa of average equity	4.6	2.9	(0.5)	5.0	4.2
Profit from core business for the period					
- As % pa of average equity	3.2	1.4	5.5	8.6	10.2
Net interest margin, %					
- Nykredit Realkredit Group	0.80	0.75	0.82	0.86	0.83
Costs					
- As % of core income from business operations	54.7	57.9	44.3	41.9	40.3
Impairment losses on loans and advances					
- Mortgage lending, DKKm	1,592	2,415	2,132	1,041	(35)
- Mortgage lending rates, %	0.14	0.21	0.19	0.09	(0.00)
Non-performing loans*					
- %	2.24	2.46	2.39	2.45	2.38
Coverage ratio**					
- %	26.9	29.1	32.0	28.9	28.8
Total capital ratio					
- %	19.1	18.9	18.2	23.9	24.0
CET1 capital ratio					
- %	15.8	15.8	15.4	19.4	19.5
Impairment losses on loans and advances					
- Bank lending, DKKm	557	349	219	(121)	(16)
- Bank lending, rates, %	0.59	0.29	0.22	(0.12)	(0.00)

For the purpose of return on equity, the Additional Tier 1 (AT1) capital raised in 2015 is treated as a financial obligation for accounting purposes, and the dividends for the period thereon for accounting purposes are included as interest expenses on subordinated debt in the profit for the year

* A measure of impaired or doubtful loans (lowest rating category)

** Reserves for impaired loans/impaired loans

Source: Nykredit Q1/2016 Reports and Fact Book

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