

Nykredit Group

Q1/2017 Earnings call



9 May 2017

Michael Rasmussen, CEO
David Hellemann, CFO

Nykredit

Highlights from Q1/2017

Business results

- Profit from core business of DKK 2.2bn - up 39%% compared to Q1/2016
 - Core income from business operations 22% higher driven by higher mortgage margins and increased business volumes
 - Costs declined by 2% compared to Q1/2016
 - Loan loss provisions still virtually zero due to benign macro economic climate
- Profit after tax of DKK 2.3bn compared to 0.7bn last year is positively affected by a positive value adjustments for legacy derivatives of DKK 337m and investment portfolio income of DKK 465m
- Return on equity before tax equals 17.2%
- Profit from core business for 2017 is now expected to exceed the 2016 result

Business volumes

- From Q1/2016 to Q1/2017 nominal mortgage lending increased by DKK 3bn
- Bank lending and deposits increased by 15% and 14% respectively compared to Q1/2016
- 17% growth in Assets under Management in Wealth Management compared to Q1/2016

Status on strategy implementation

- Focus on streamlining and running the business, delivering on targets and growing organically
- Inflow of new full-service home-owner customers continues at a satisfactory level
- Several IT projects are on-going directed towards strengthening Nykredit's relationship with the partner banks, improving customer satisfaction and reducing costs

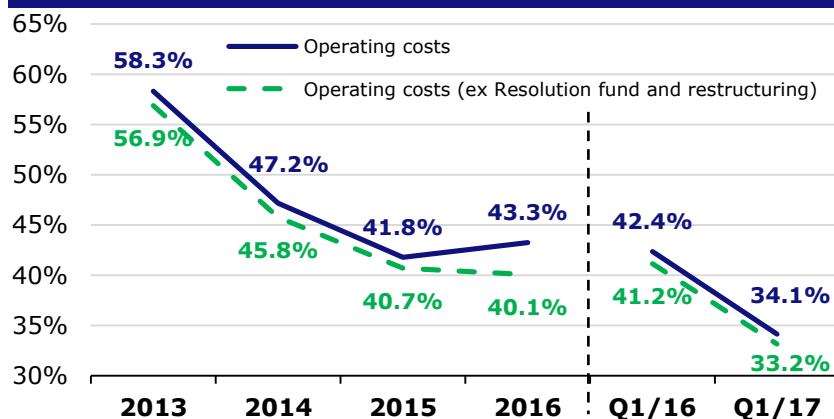
IPO

- Preparations for IPO progresses according to schedule

Profit from core business up 39% compared to Q1/2016

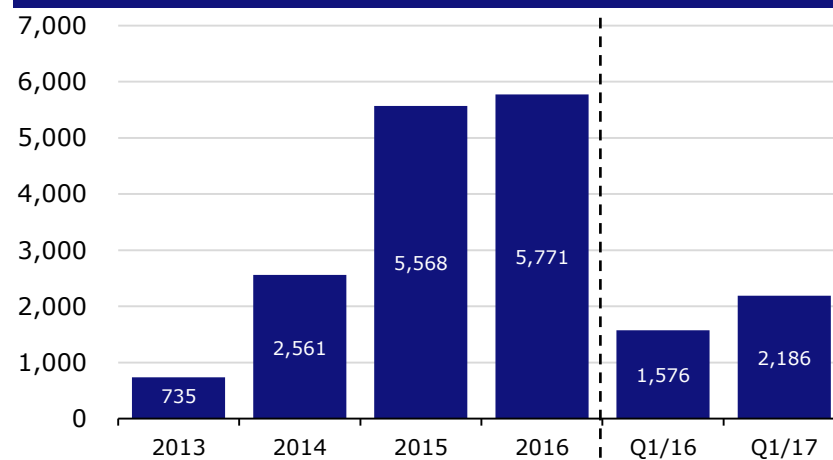
DKKm	Q1/2016	Q1/2017	Index	Comments
Core income from business operations	2,831	3,450	122	<ul style="list-style-type: none"> ▪ Increase in core income driven by larger business volumes, higher margins and derivatives ▪ Costs continues to decline ▪ Decent GDP growth, low unemployment keeps impairments low
Senior and subordinated debt	(118)	(129)	109	
Securities	11	22	200	
Income from core business	2,724	3,343	123	
Operating costs, depreciation and amortisation	1,199	1,178	98	
Profit from core business before impairment losses	1,525	2,165	142	
Impairment losses on mortgage lending	(35)	33	-	
Impairment losses on bank lending	(16)	(54)	-	
Profit from core business	1,576	2,186	139	

Group operational cost:income ratio



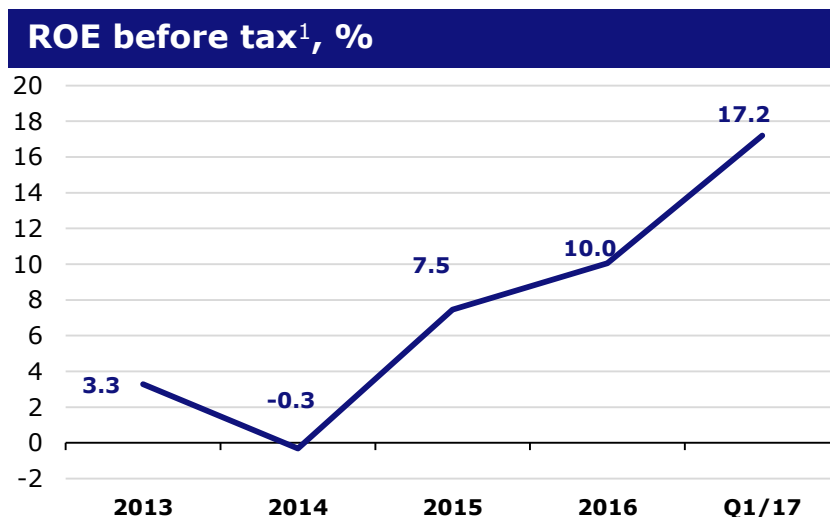
Note: Operating costs, depreciation and amortisation, incl provision for restructuring and Danish Resolution Fund as % of core earnings from business operations
Source: Nykredit Q1/2017 report

Profit from core business, DKKm



Significant increase in profit result in ROE of 17.2% before tax

DKKm	Q1/2016	Q1/2017	Index	Comments
Profit from core business	1,576	2,186	139	<ul style="list-style-type: none"> Reversal of XVAs on legacy derivatives contributes DKK 1.1bn Very good investment portfolio result driven by tighter credit spreads on covered bonds and senior debt Extraordinary strong profit after tax
Derivatives no longer offered	(741)	337	-	
Gain on sale of owner-occupied properties	0	0	-	
Investment portfolio income	60	465	775	
Profit before tax	895	2,988	334	
Tax	191	639	-	
Profit after tax	705	2,349	333	



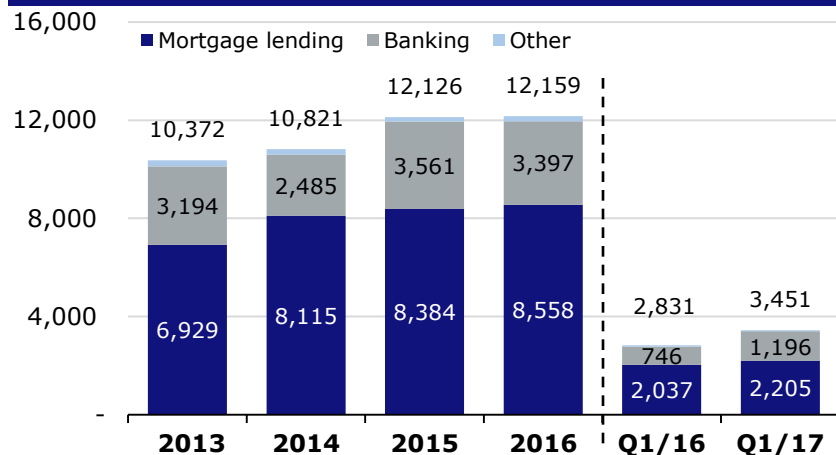
Source: Nykredit Q1/2017 report

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

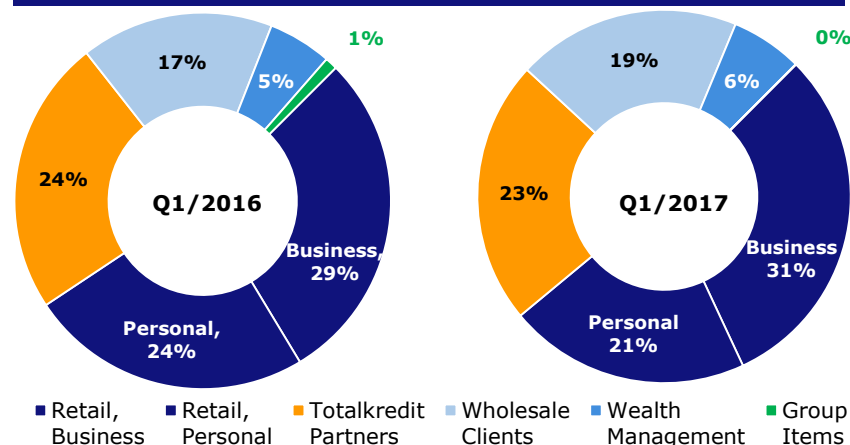
Group ratios	Q1/2016	Q1/2017
Total assets, DKK	1,400.2bn	1,390.2bn
Return on assets, %	0.20%	0.68%
Net Interest Margin, %	0.83%	0.86%
Return on core business	9.8%	12.5%
ROE after tax	4.2%	13.5%

Distribution of core income and profit by business areas

Core income from business operations, DKKm



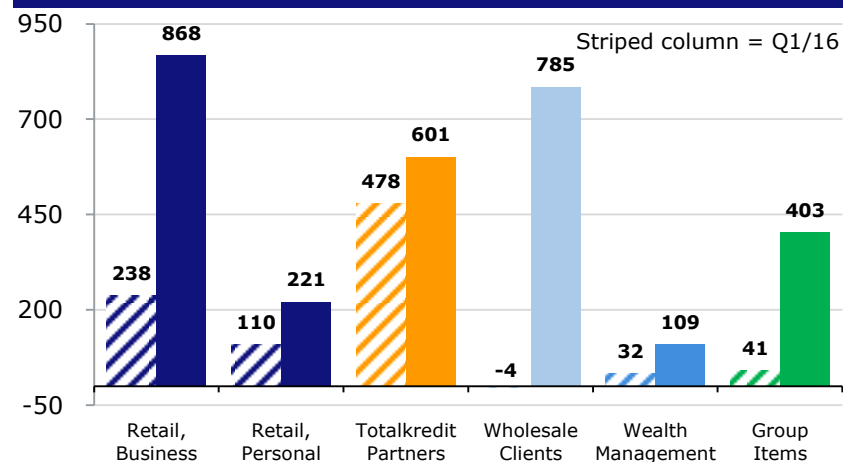
Business areas share of core earnings, %



Comments

- Earnings growth in Nykredit Bank driven by higher trading volume in Nykredit Markets, positive value adjustment on derivatives and higher lending volumes
- Retail Business and Wholesale profits affected by value adjustments on derivatives
- Higher mortgage margins reflected in Totalkredit result
- Wealth Management result improved mainly due to higher business volumes
- Very strong investment portfolio result drives Group Items

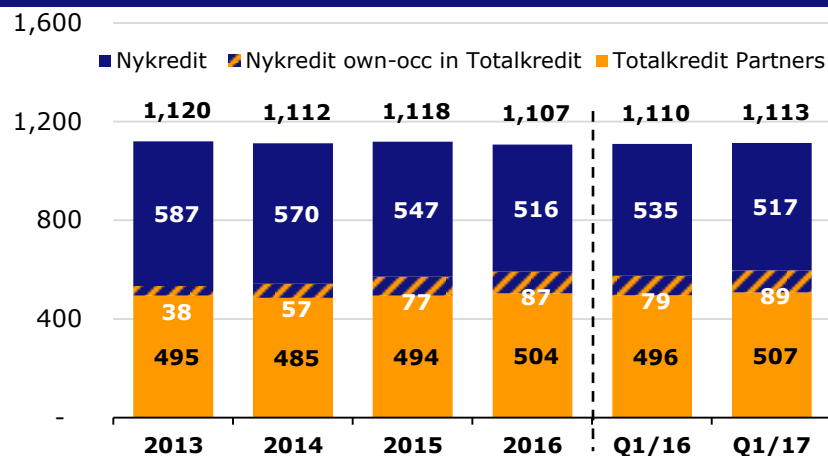
Business areas profit before tax Q1/17, DKKm



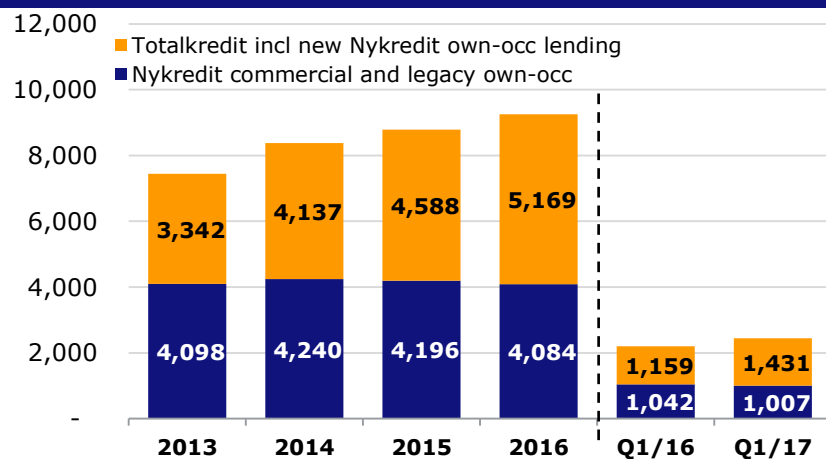
Source: Nykredit Q1/2017 report

Two mortgage brands

Mortgage lending (nom. portfolio), DKKbn



Mortgage margin income, DKKm



Source: Nykredit Q1/2017 reports, MFI statistics

Comments

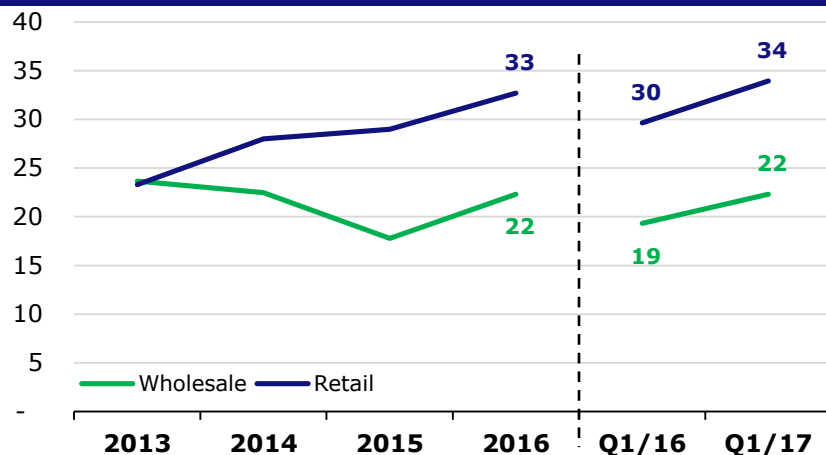
- Demand for new mortgage loans remain muted
- Nykredit owner-occupied portfolio gradually migrating to Totalkredit leading to improved profitability
- Totalkredit's mortgage portfolio grew by DKK 3bn in Q1/2017 despite run-off of legacy partner portfolios
- Recent margin increase reflected in margin income

Mortgage lending market share

	2016	Q1/2017
Nykredit Group	41.2%	41.1%
Totalkredit	38.6%	38.9%

Full-service customer focus reflected in higher volumes

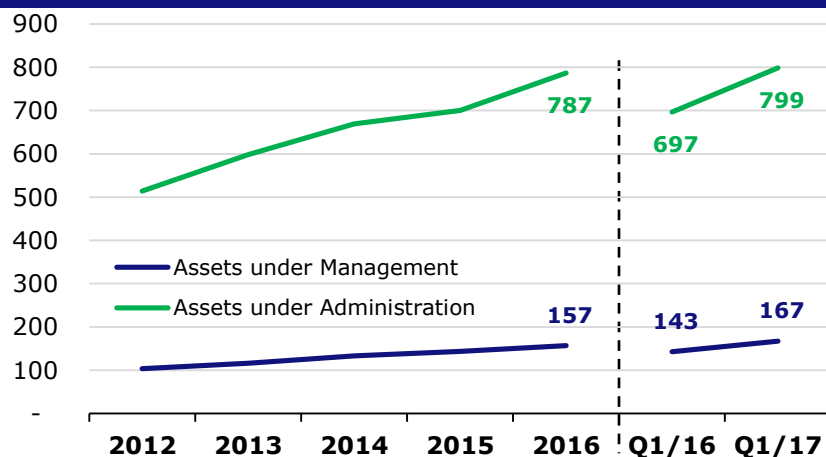
Bank lending (portfolio), DKKbn



Comments

- Lending to customers increased by 15% equal to DKK 7bn compared to Q1/2016
- Assets under Management grew by 17%
- Assets under Administration grew by 15% compared to Q1/2016
- Satisfactory inflow of new customers and funds in Private Banking
- Excellent investment returns compared to benchmarks attracts new business

Assets under Management, DKKbn



Market share

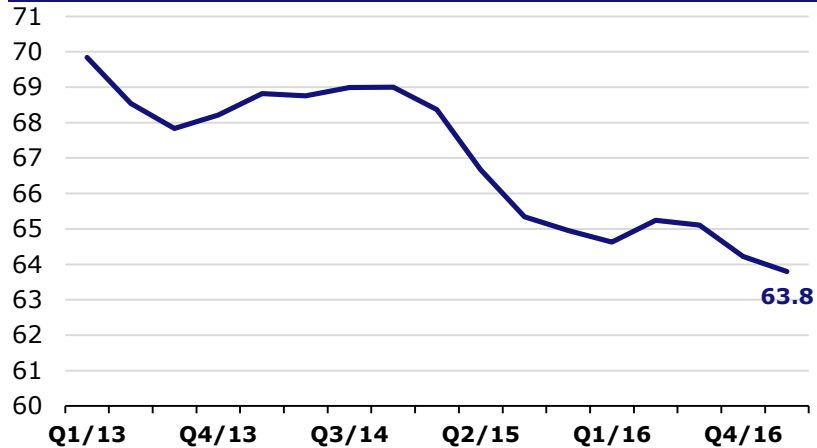
Q1/2017	Bank deposits	Bank lending
Personal	3.0 %	3.4 %
Business	7.0 %	7.3 %
Other ¹	7.7 %	11.1 %
Total	4.9 %	6.7 %

¹ Repo and reverse transactions, insurance companies, pension funds, public administration and services, etc

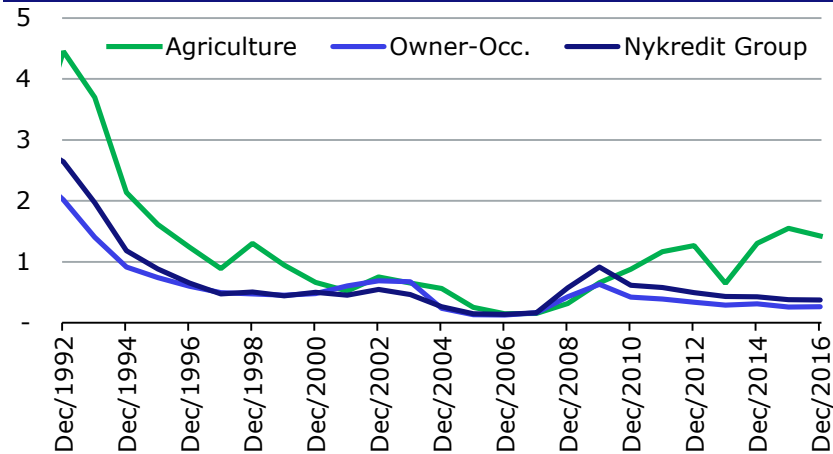
Source: MFI statistics, Nykredit Q1/2017 reports

Strong mortgage portfolio credit metrics

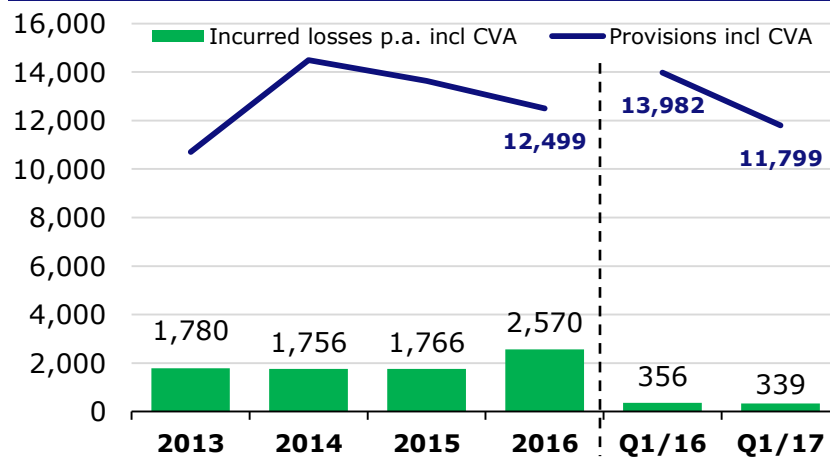
Average mortgage LTV (all segments), %



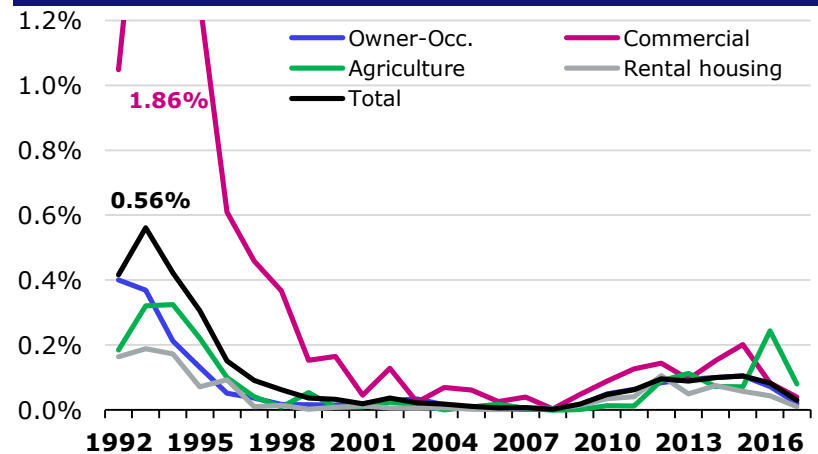
75-day arrears, %



Total provisions and incurred losses, DKKm



Mortgage lending: Incurred loss as % of debt



Annual arrears data.
Source: Nykredit Q1/2017 reports

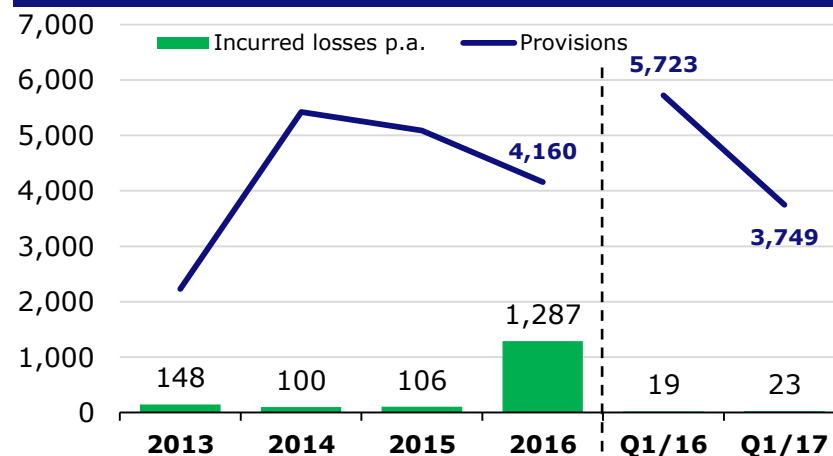
Credit metrics and derivatives

%	2013	2014	2015	2016	Q1/2016	Q1/2017
Impairment losses						
- Mortgage lending	0.21	0.19	0.09	0.07	0.00	0.00
- Bank lending	0.29	0.22	-0.12	-0.15	0.00	-0.06
Agriculture (DKKm)						
- Provisions	494	856	1,096	1,447	1,049	1,484
- Incurred losses	110	69	67	227	54	83
Nykredit Group						
- Non-performing loans	2.46	2.39	2.45	2.36	2.38	2.34
- Cover ratio*	29.1	32.0	28.9	29.0	28.8	28.5
Acquired properties, no.	322	238	159	114	172	94

Derivatives and CVAs

- Significant CVA reversals on both current and legacy derivatives sold to customers...
- ... driven primarily by higher long swap rates
- FVAs and duration shortening also contributed positively
- A number of legal disputes are no longer pending resulting in reduced legal risk and lower provisions

CVA provisions and incurred losses, DKKm



* Reserves for impaired loans / impaired loans
Source: Nykredit Q1/2017 Reports and Fact Book

Capital and funding plans

Capital

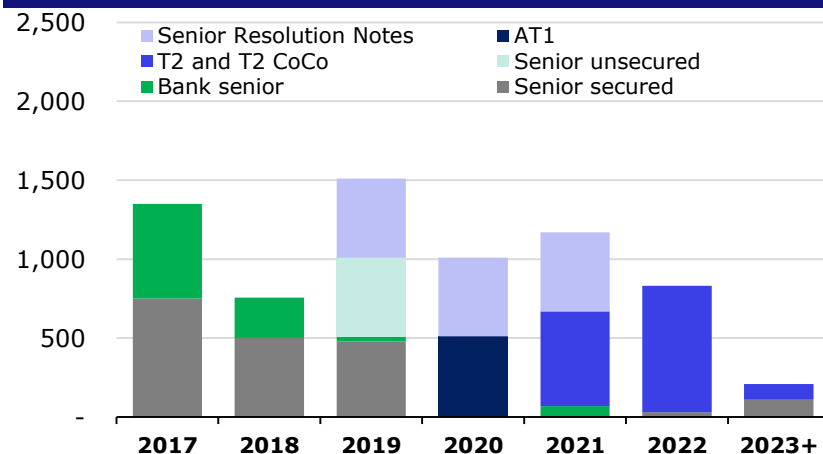
- REA declining slightly due to higher property prices and improving credit quality
- CET1 ratio amount to 19.4%
- No current need to issue AT1 or Tier 2 capital
- Capital requirements still expected to increase in the medium term due to new regulation

Group facts	Q1/2016	Q1/2017
Risk Exposure Amount (REA)	310.1bn	337.3bn
CET1	60.7bn	65.7bn
CET1 ratio	19.5%	19.4%
Total capital ratio	24.0%	23.9%
Leverage ratio	4.3%	4.6%
Pillar I	8.0	8.0
Pillar II	3.7	2.2
Solvency requirements	11.7	10.2

Funding plans

- Nykredit issued EUR 500m of bail-inable debt (Senior Resolution Notes) in Q1
- We expect to issue another DKK 2 to 6bn of Senior Resolution Notes before end-2017
- Refinancing auctions for covered bonds in late May

Nykredit Group maturity profile, EURm



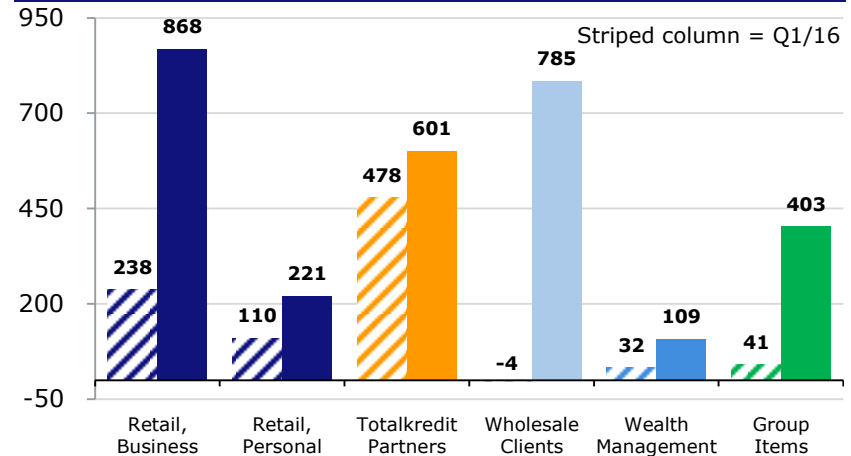
Source: Nykredit Q1/2017 reports and Rating reports
 Note: Maturity profile excludes covered bonds.

Concluding remarks

Q1/2017 result

- First quarter of 2017 has been good for Nykredit
- Positive development in all business units
- Good credit quality with virtually no loan losses
- Profit from core business up 39% compared to Q1 2016
- Higher business volumes in bank lending, Markets and Wealth Management
- Costs reduced by 2%
- Investment portfolio income and CVA's contribute significantly profits
- Q1 result delivers ROE pre-tax of 17.2%
- Profit from core business for 2017 expected to be higher than 2016 result

Business areas profit before tax Q1/17, DKKm



Profit loss Q4/2016 vs Q1/2017

DKKm	Q4/2016	Q1/2017	Index
Core income from business operations	3,285	3,450	105
Senior and subordinated debt	(98)	(129)	132
Securities	13	22	169
Income from core business	3,200	3,343	104
Operating costs, depreciation and amortisation	1,576	1,178	75
Profit from core business before impairment losses	1,624	2,165	133
Impairment losses on mortgage lending	378	33	9
Impairment losses on bank lending	(83)	(54)	-
Profit from core business	1,329	2,186	164
Derivatives no longer offered	422	337	80
Gain on sale of owner-occupied properties	369	0	-
Investment portfolio income	218	465	213
Profit before tax	2,338	2,988	128
Tax	472	639	-
Profit after tax	1,866	2,349	126

Source: Nykredit Q1/2017 report

Nykredit Group – financial ratios

	2013	2014	2015	2016	Q1/2017
Net interest margin, % - Nykredit Realkredit Group	0.75	0.82	0.86	0.91	0.86
Profit (loss) for the period - As % pa of average equity	2.9	(0.5)	5.0	8.0	13.5
Profit (loss) before tax for the period - As % pa of average equity	3.3	(0.3)	7.5	10.0	17.2
Profit from core business for the period - As % pa of average equity	1.3	4.4	8.9	8.6	12.5
Total assets, DKKbn	1,417.4	1,457.3	1,383.8	1,400.6	1,390.2
Risk Exposure Amount (REA), DKKbn	346.0	358.6	311.2	349.3	337.3
Leverage ratio, %	-	-	4.4	4.6	4.6
S&P RAC ratio (June 2016), %				11.2	-
Distance to MDA, not fully loaded, DKKbn			38.4	40.9	38.1
Distance to MDA, fully loaded, DKKbn			35.6	29.9	31.1
Available Distributable Items (ADI), DKKbn			26.2	29.8	32.1
Total capital ratio, %	18.9	18.2	23.9	23.0	23.9
CET1 capital ratio, %	15.8	15.4	19.4	18.8	19.4

For the purpose of return on equity, the Additional Tier 1 (AT1) capital raised in Q3/2016 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

Source: Nykredit Q1/2017 Reports and Fact Book

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