

Nykredit Group

H1/2017 Earnings call



17 August 2017

Michael Rasmussen, CEO
David Hellemann, CFO

Nykredit

Highlights of H1/2017 – best half-year results ever

Business results

- Profit from core business of DKK 4.7bn - up 57% compared with H1/2016
 - Core income from business operations was 19% higher, driven by increased business volumes and higher mortgage margins
 - Operating costs declined by 3% compared with H1/2016
 - Loan loss provisions overall at very low level due to strong credit fundamentals
- Results were also impacted by high investment portfolio income and income from derivatives and reversed impairments relating to two large housing cooperative exposures
- Profit after tax of DKK 5.4bn compared to DKK 1.8bn last year is positively affected by positive value adjustment of legacy derivatives of DKK 1.4bn and investment portfolio income of DKK 0.8bn
- Return on equity before tax equals 19.3%

Guidance

- Guidance for profit from core business for 2017 revised up to DKK 7-8bn

Business volumes

- From H1/2016 to H1/2017, nominal mortgage lending increased by DKK 13bn or 1%
- Bank lending increased by 16% and bank deposits were flat compared with H1/2016
- Assets under management grew by 15% compared with H1/2016

Highlights of H1/2017 (continued)

Status on strategy implementation

- Management focus is on optimisation, delivering on targets and organic growth
- Satisfactory inflow of new full-service homeowner customers and private banking clients
- Development of new mortgage IT platform with partner banks progressing according to plan
- Cooperation with Totalkredit partner banks strengthened by new appointments to Totalkredit's board of directors

KundeKroner

- As of Q3 this year Nykredit starts paying KundeKroner to mortgage customers in Totalkredit equal to 10bps of the mortgage loan
- We have now decided to extend KundeKroner for another year until end Q2/2019

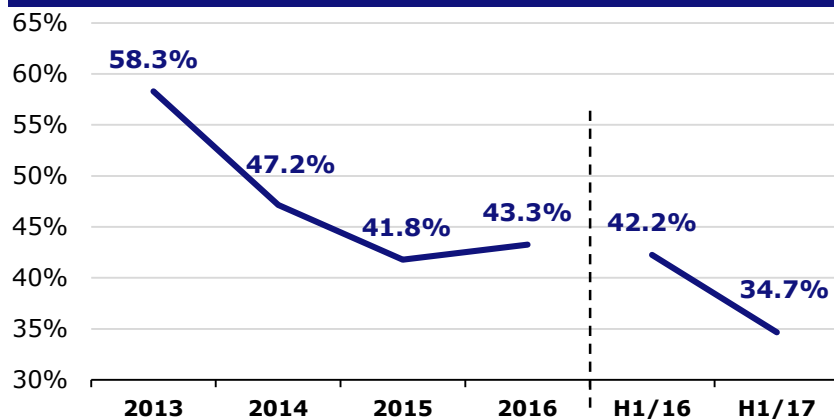
IPO

- Preparations for IPO progress according to schedule

Profit from core business up 57% compared with H1/2016

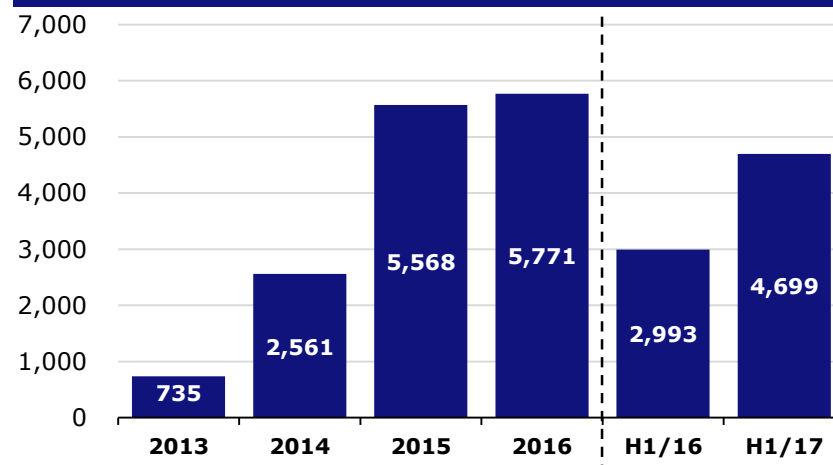
DKKm	H1/2016	H1/2017	Index	Comments
Core income from business operations	5,764	6,820	118	<ul style="list-style-type: none"> ▪ Increase in core income driven by larger business volumes, higher margins and derivatives
Senior and subordinated debt	(232)	(247)	106	
Securities	21	43	205	
Income from core business	5,553	6,616	119	<ul style="list-style-type: none"> ▪ Costs maintain downward trend
Operating costs, depreciation and amortisation	2,435	2,365	97	
Profit from core business before impairment losses	3,118	4,251	136	<ul style="list-style-type: none"> ▪ Benign macroeconomic conditions keep new impairments low
Impairment losses on mortgage lending	211	(241)	-	
Impairment losses on bank lending	(86)	(207)	241	
Profit from core business	2,993	4,699	157	

Group operational cost:income ratio



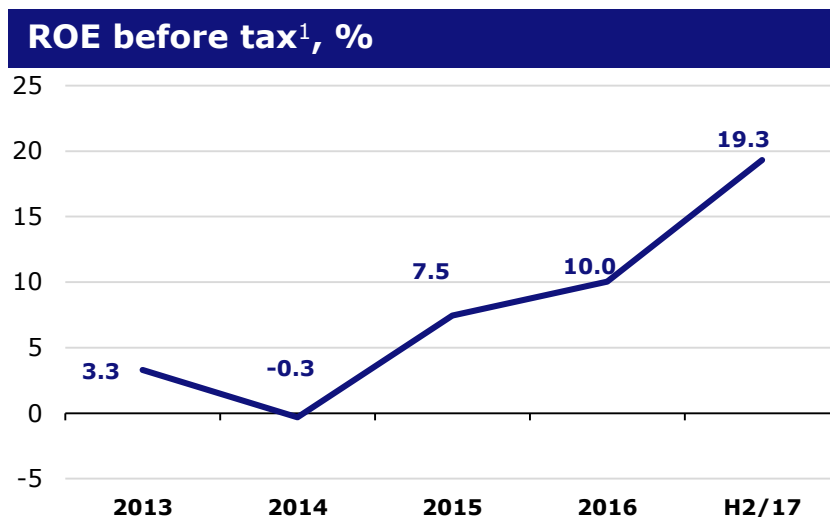
Source: Nykredit H1/2017 report

Profit from core business, DKKm



Significant increase in profit results in ROE of 19.3% before tax

DKKm	H1/2016	H1/2017	Index	Comments
Profit from core business	2,993	4,699	157	<ul style="list-style-type: none"> Reversal of XVAs on legacy derivatives contributes DKK 1.4bn Very good investment portfolio results driven by tighter credit spreads and private equity Extraordinary strong profit after tax
Legacy derivatives	(1,251)	1,366	-	
Investment portfolio income	533	803	151	
Profit before tax	2,275	6,868	302	
Tax	472	1,436	304	
Profit after tax	1,803	5,432	301	



Group ratios	H1/2016	H1/2017
Total assets, DKK	1,407.3bn	1,379.7bn
Return on assets, %	0.26%	0.78%
Net interest margin, %	0.78%	0.87%
Return on core business	9.2%	13.1%
ROE after tax	5.4%	15.3%

Source: Nykredit H1/2017 report

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

Profit from core business up 31% Q2/2017 compared to Q1/2017

DKKm	Q1/2017	Q2/2017	Index
Core income from business operations	3,450	3,370	98
Senior and subordinated debt	(129)	(118)	-
Securities	22	21	95
Income from core business	3,343	3,273	98
Operating costs, depreciation and amortisation	1,178	1,187	101
Profit from core business before impairment losses	2,165	2,086	96
Impairment losses on mortgage lending	33	(274)	-
Impairment losses on bank lending	(54)	(153)	-
Profit from core business	2,186	2,513	115
Legacy derivatives	337	1,029	300
Gain on sale of owner-occupied properties	0	0	-
Investment portfolio income	465	338	73
Profit before tax	2,988	3,880	130
Tax	639	797	-
Profit after tax	2,349	3,083	131

Comments

Value adjustment of derivatives came to a profit of DKK 158m in Q2 vs a profit of DKK 200m in Q1

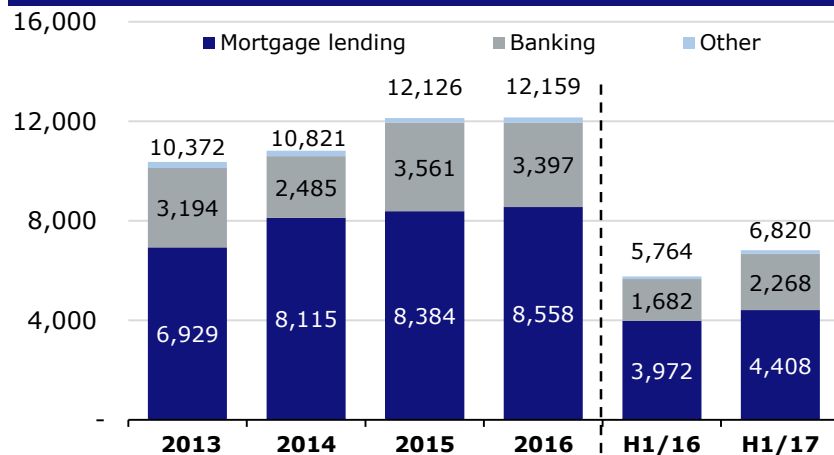
Positive effect from the settlement of two large housing cooperative exposures contributed a gain of DKK 266m

Income of DKK 739m from the settlement of two large housing cooperative exposures

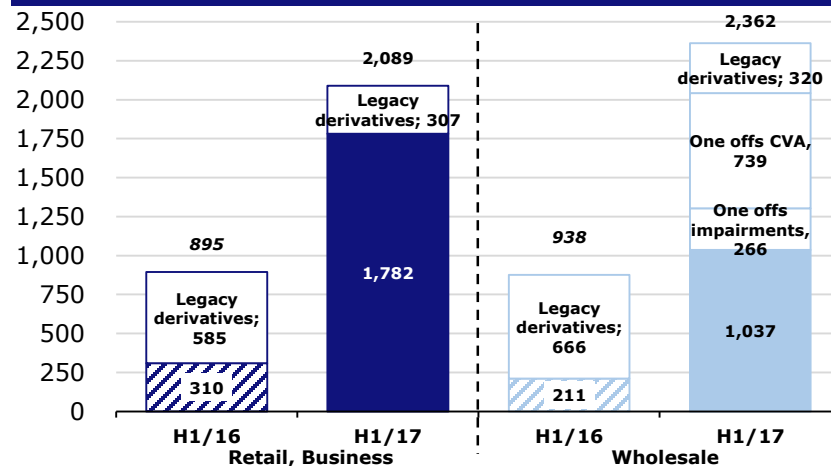
Source: Nykredit H1/2017 report

Underlying growth in all business areas

Core income from business operations, DKKm



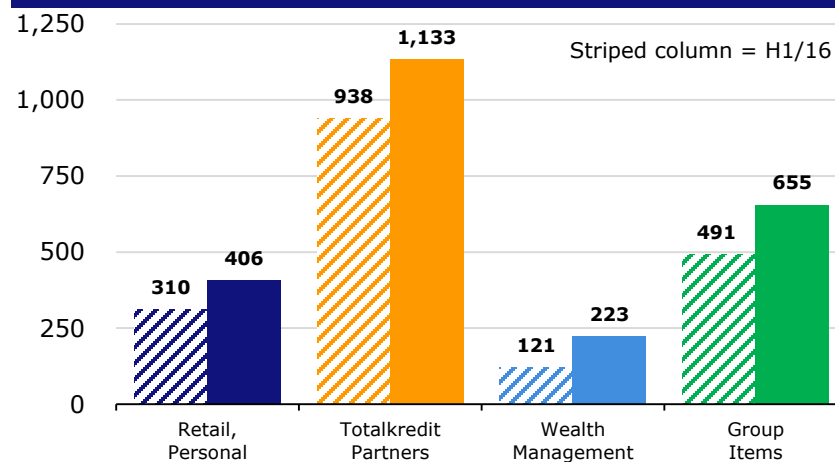
Business areas, profit before tax, DKKm



Comments

- Earnings growth in Nykredit Bank driven by positive value adjustments and increasing fee income
- Wealth Management results improved due to increased AuM and increasing performance fees
- Profit growth in Retail Business and Wholesale also affected by value adjustment of derivatives
- Higher mortgage margins reflected in Totalkredit results
- Very strong investment portfolio results drive Group Items

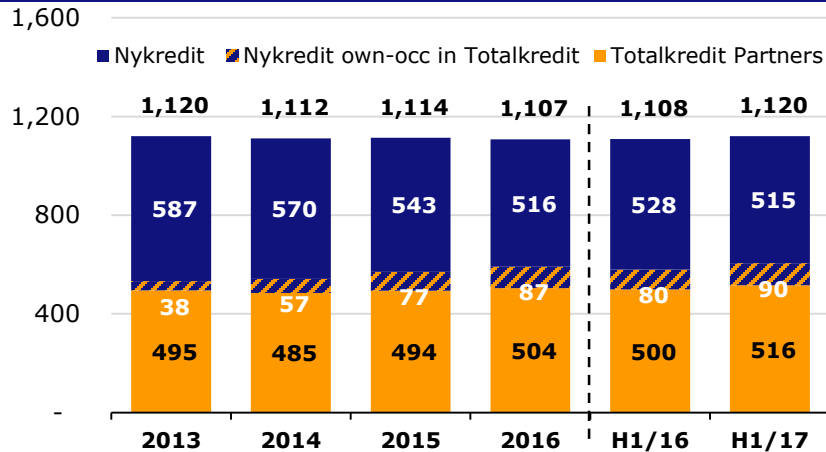
Business areas, profit before tax, H1/17, DKKm



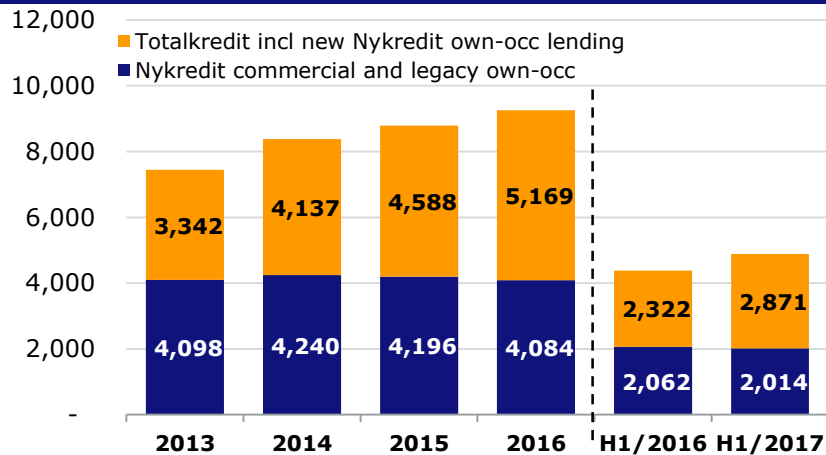
Source: Nykredit H1/2017 report

Growth in mortgage lending

Mortgage lending (nom portfolio), DKKbn



Mortgage margin income, DKKm



Source: Nykredit H1/2017 reports, MFI statistics

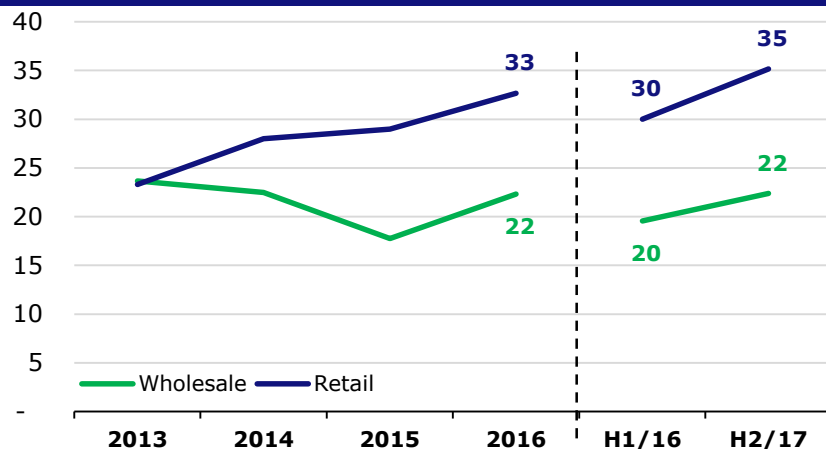
Comments

- Demand for new mortgage loans picking up
- Nykredit owner-occupied portfolio gradually migrating to Totalkredit leading to improved profitability
- Totalkredit's mortgage portfolio grew by DKK 16bn compared with H1/2016 despite run-off of legacy partner portfolios
- Recent margin increase reflected in margin income

Mortgage lending market share	2016	H1/2017
Nykredit Group	41.2%	41.2%
Totalkredit owner-occ	38.6%	39.1%
Nykredit Group commercial	36.7%	36.6%

Full-service customer focus reflected in higher volumes

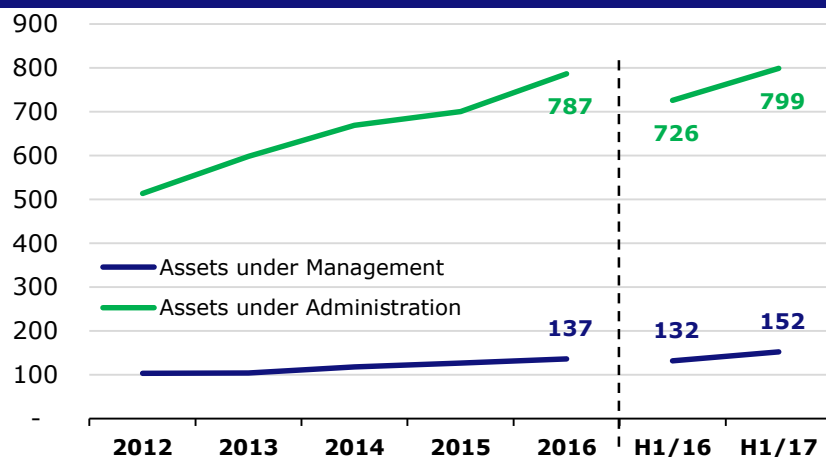
Bank lending (portfolio), DKKbn



Comments

- Bank lending to customers increased by 16% equal to DKK 7bn compared with H1/2016
- Growth in both Wholesale and Retail business
- Assets under Management grew by 15% due to inflow of funds
- Assets under Administration grew by 10%

Assets under Management, DKKbn



Market share

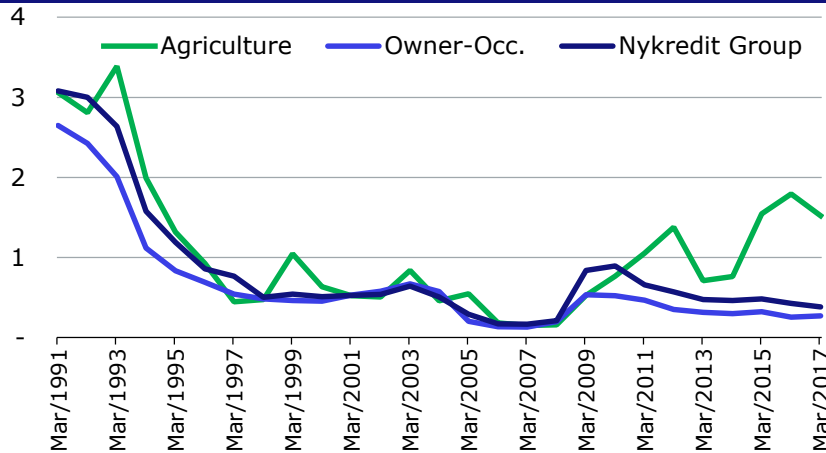
H1/2017	Bank deposits	Bank lending
Personal	3.1 %	3.4 %
Business	6.7 %	7.3 %
Other ¹	7.1 %	10.1 %
Total	4.7 %	6.5 %

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

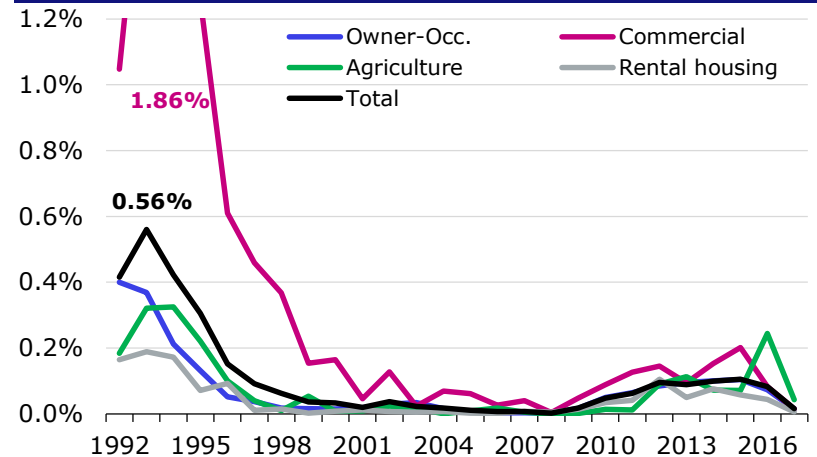
Source: MFI statistics, Nykredit H1/2017 reports

Strong credit metrics

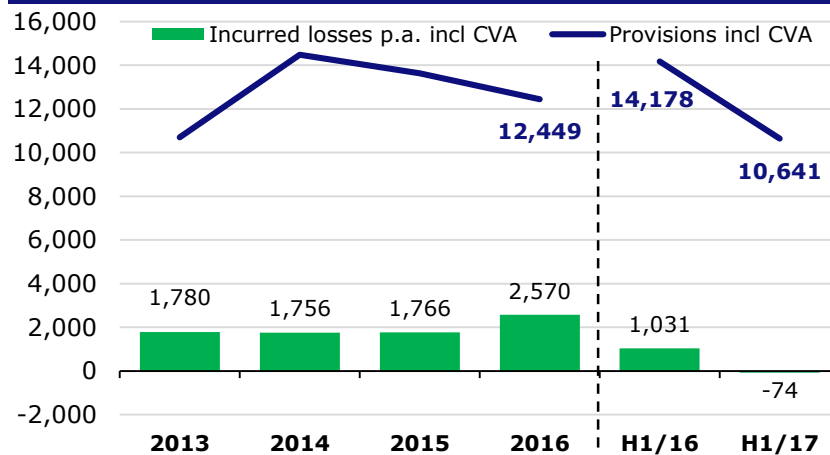
75-day mortgage arrears, %



Mortgage lending: Incurred loss as % of debt



Total provisions and incurred losses, DKKm



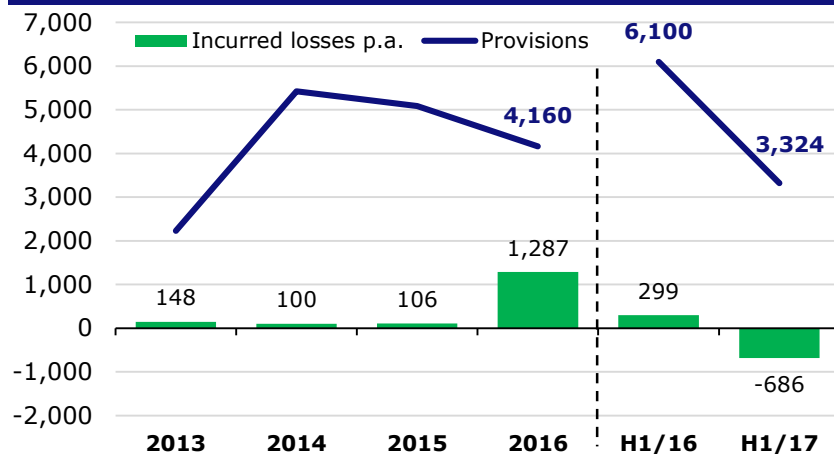
Provisions and agriculture

- Arrears and incurred losses on mortgage lending generally trending down
- The agricultural sector positively influenced by higher settlement prices and lower feed stock costs
- Settlement of two large housing cooperatives led to lower total impairment provision and total incurred losses (write-offs)

Annual arrears data.
Source: Nykredit H1/2017 reports

Significantly decline in CVA risk

CVA provisions and incurred losses, DKKm



Derivatives and CVAs

- Significant CVA reversals on both current and legacy derivatives
- Driven by two large cases and higher long-term swap rates
- FVAs and maturity reduction also contributed positively

%	2013	2014	2015	2016	H1/2016	H1/2017
Impairment losses						
- Mortgage lending	0.21	0.19	0.09	0.07	0.02	-0.02
- Bank lending	0.29	0.22	-0.12	-0.15	-0.10	-0.23
Agriculture (DKKm)						
- Provisions mortgage lending	494	856	1,096	1,447	1,233	1,363
- Write-offs mortgage lending	110	69	67	227	119	123
Nykredit Group						
- Non-performing loans	2.47	2.47	2.56	2.47	2.45	2.27
- Cover ratio*	29.0	31.5	28.7	28.9	28.5	27.5
Acquired properties, no.	322	238	159	114	127	96

* Reserves for impaired loans / impaired loans
Source: Nykredit H1/2017 Reports and Fact Book

Strong and organic capital generation

Capital

- REA increasing compared to H1/2016 due to implementation of IRB models
- REA flat from Q1 to Q2
- CET1 ratio amounts to 20.9% equal to organic capital generation of 210bp YTD
- No current need to issue AT1 or Tier 2 capital
- Capital requirements still expected to increase in the medium term due to new regulation

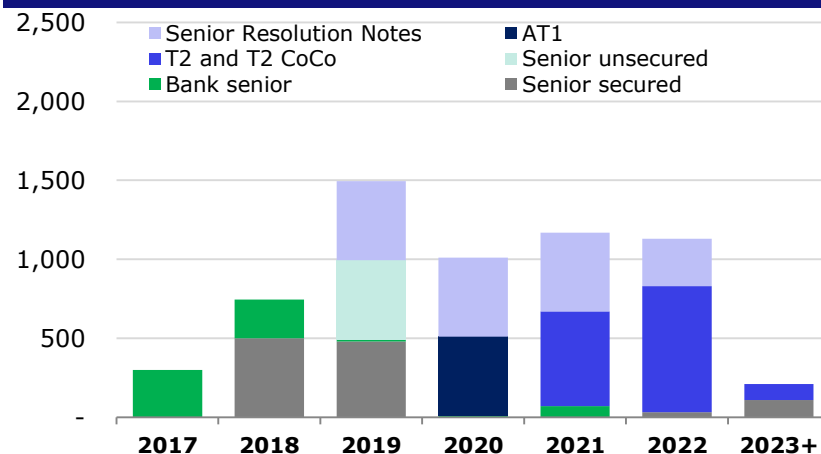
Group facts

	Q1/2017	Q2/2017
Risk Exposure Amount (REA)	336.3bn	338.1bn
CET1	65.5bn	71.0bn
CET1 ratio	19.4%	20.9%
Total capital ratio	22.6%	25.5%
Leverage ratio	4.6%	5.0%
Pillar I	8.0	8.0
Pillar II	2.1	2.1
Solvency requirements	10.1	10.1

Funding plans

- Nykredit issued EUR 800m of bail-inable debt (Senior Resolution Notes) in H1
- We do not expect to issue significant amounts of Senior Resolution Notes for the remainder of 2017
- Refinancing auctions for covered bonds in late August

Nykredit Group maturity profile, EURm



Source: Nykredit H1/2017 reports and Rating reports
 Note: Maturity profile excludes covered bonds.

Concluding remarks

H1/2017 results

- Strong results with growth in all business areas
- Result helped by strong tailwind and large positive one-offs
- Cost reduced by 3% and focus on cost cutting continues
- On track with the IPO

2017 guidance

- Profit from core business for 2017 expected to be DKK 7-8bn

Nykredit Group – financial ratios

	2013	2014	2015	2016	H1/2017
Net interest margin, % - Nykredit Realkredit Group	0.75	0.82	0.86	0.91	0.87
Profit (loss) for the period - As % pa of average equity	2.9	(0.5)	5.0	8.0	15.3
Profit (loss) before tax for the period - As % pa of average equity	3.3	(0.3)	7.5	10.0	19.3
Profit from core business for the period - As % pa of average equity	1.3	4.4	8.9	8.6	13.1
Total assets, DKKbn	1,417.4	1,457.3	1,383.8	1,400.6	1,379.7
Risk Exposure Amount (REA), DKKbn	346.0	358.6	311.2	349.3	338.1
Leverage ratio, %	-	-	4.4	4.6	5.0
S&P RAC ratio (December 2016), %				11.6	-
Distance to MDA, not fully loaded, DKKbn			38.4	40.9	43.5
Distance to MDA, fully loaded, DKKbn			35.6	29.9	36.4
Available Distributable Items (ADI), DKKbn			26.2	29.8	33.5
Total capital ratio, %	18.9	18.2	23.9	23.0	23.9
CET1 capital ratio, %	15.8	15.4	19.4	18.8	20.9

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 H1/2017 Reports and Fact Book

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