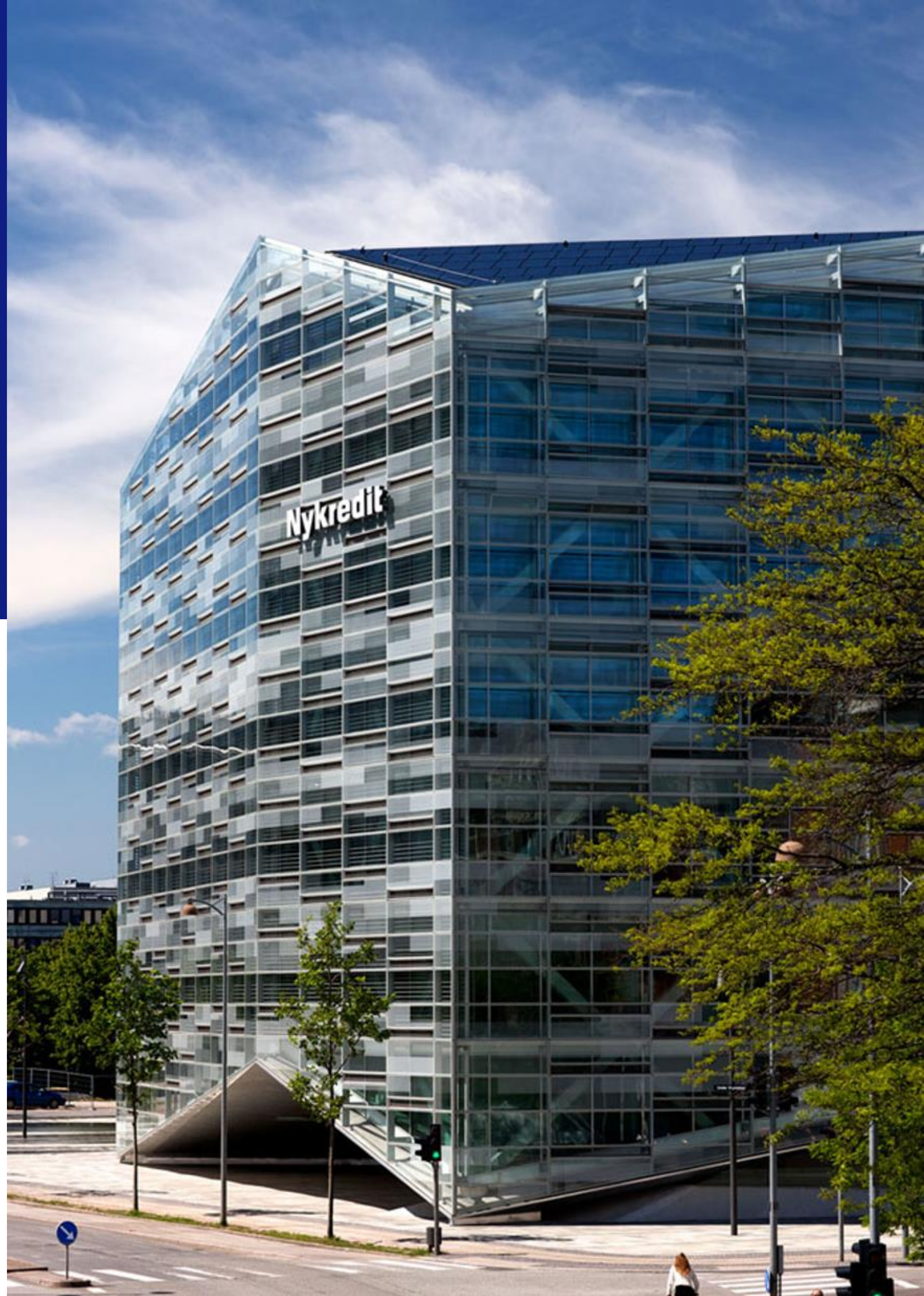
# Nykredit Group

Q2/2018 Earnings call

Michael Rasmussen, CEO
David Hellemann, CFO

23 August 2018
Copenhagen

Numbers relate to
Nykredit Group



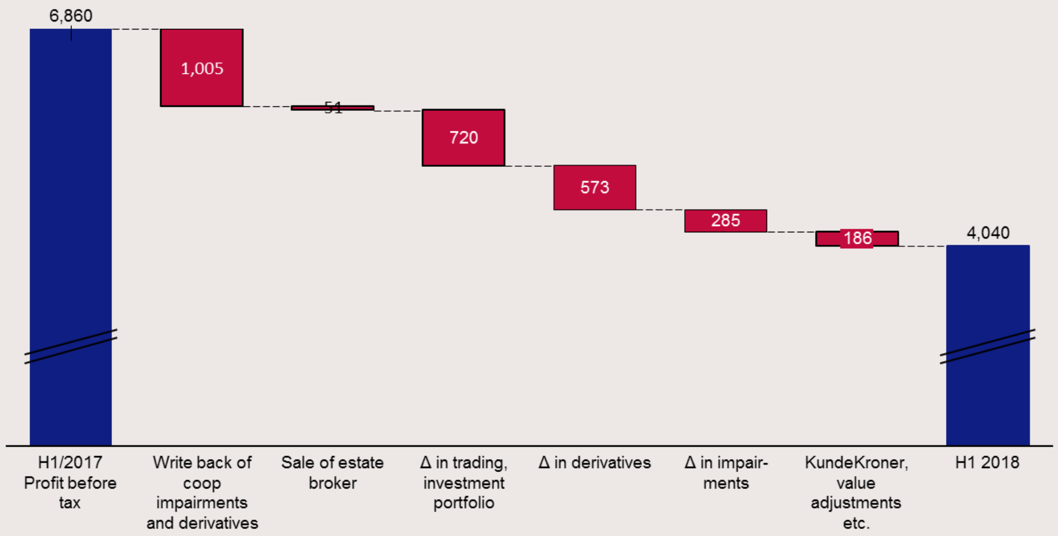

Nykredit

# A satisfactory H1/2018 in the upper end of our expected range

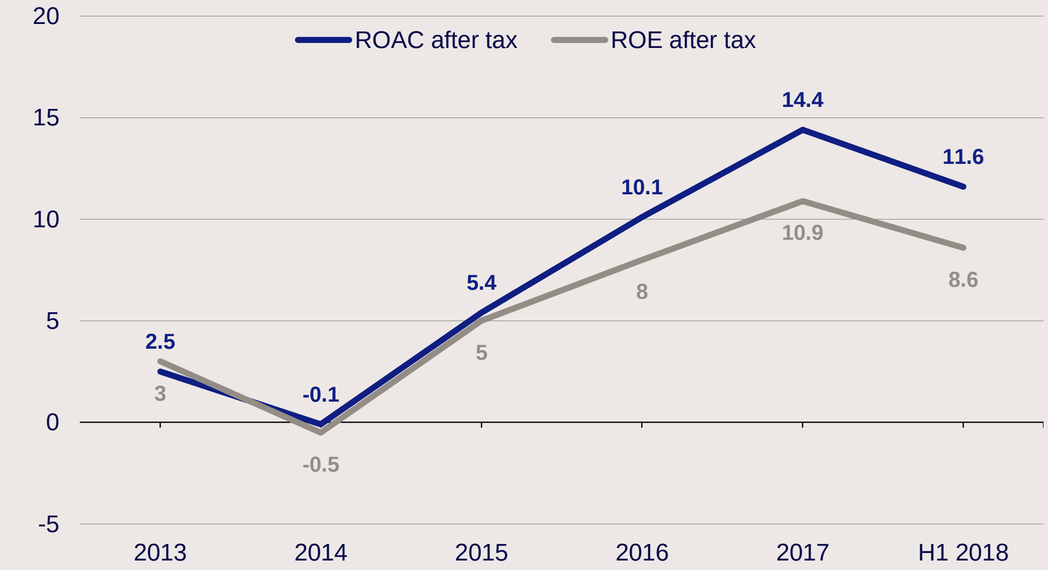
**H1/2018 overview**

- Satisfactory first half of the year with business profit of DKK 3.8bn – better than expected
  - As expected lower than the very good H1/2017
- ROE of 8.6% and ROAC of 11.6%
- Net Interest Income growth of 1% excluding KundeKroner
- Increasing business volumes
  - Higher mortgage lending in Totalkredit and Wholsesale
  - Growth in bank lending and good inflow of customers
  - 13% growth in assets under management
- Strong distribution power of partner banks and competitive pricing due to KundeKroner support competitive position
- We still expect costs for the year to be lower than in 2017 despite 1.7% growth in costs in H1/2018
- Credit quality remains strong reflecting the benign business cycle and strong property market

## Profit in line with H1/´17 without one-offs and volatile items




## ROE and ROAC after tax[1], %




[1] Profit (loss) after tax including interest on AT1 divided by either average equity for the period or allocated capital. ROAC: Profit (loss) after tax including interest on AT1 divided by business capital.

# Update on business development

- Satisfactory development in our lending business
  - Mortgage lending in Totalkredit Partners up 3% and up 2% in Wholsesale
  - Retail bank lending including Secured Homeowner Loans grew 2.6% and Wholesale bank lending grew 13%
- Assets under management grew 13% primarily from new funds
- Group NII is increasing and margins are increasing in banking
  - Net Interest Income growth of 1% excluding KundeKroner
  - Increasing margins in Nykredit Bank (+7 bps. in H1)
- We paid DKK 470m in KundeKroner to customers in Totalkredit in H1 and we are rolling out ErhvervsKroner to our corporate customers
- Healthy inflow of new customers
- We still expect costs for the year to be lower that 2017 despite 1.7% growth in costs in H1/2018
- Business profit is better than expected
  - As expected lower than the very good H1/2017 as last year's tailwind subsided…
  - …driven by lower investment portfolio income, fewer loan loss reversals and lower value adjustments on legacy derivatives

# We expect to report full year profits in the upper end of guidance

**Guidance**

- Profits for H1/2018 is very satisfactory and better than expected
- Overall credit quality remain strong and impairment charges are expected to remain low
- Agriculture is a risk factor, but we have provisioned adequately
- As expected write backs, value adjustments of derivatives and investment portfolio income have not delivered the same extent of tailwind as in 2017
- Guidance for profit before tax for 2018 maintained at DKK 6.5 to 7.5bn
- We maintain our guidance, but based on events in H1/2018, including strong growth in customer activities, we now expect profit to be at the high end of the range
- The most significant risk relates to impairments, particularly for agricultural customers as a result of the drought, and to investment portfolio income and derivatives as a result of, among other things, interest rate movements

# Net Interest Income growing, loan losses remain low

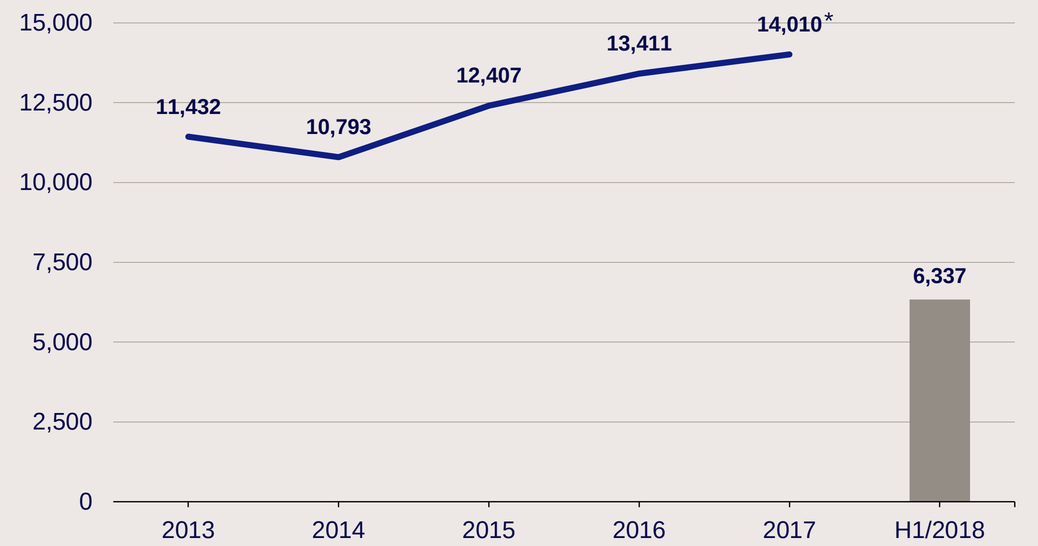
**Business results**

- Profit after tax of DKK 3.3bn delivering an ROE of 8.6% after tax and a ROAC of 11.6%
- Overall we are satisfied with development in our business
  - The lower numbers this year are due to one-offs last year in the form of extraordinary high income, loan loss reversals and high investment portfolio
- Total income from customer activities broadly in line with last year
  - NII up 3% excluding KundeKroner, NFI down 12% and Wealth Management income down 3%
- Operating costs increased just under 2%, but we still expect to report lower costs in 2018 than in 2017
- Impairment charges showed a loss of DKK 0.1bn compared to an income of 0.5bn last year where a few large loan loss provisions were written back
- Business profit of DKK 3.8bn - higher than expected

| DKKm | H1/2017 | H1/2018 | Index |
|---|---|---|---|
| **Income** | **7,419** | **6,337** | 85 |
| Costs | 2,373 | 2,414 | 102 |
| **Business profit before impairment charges** | **5,046** | **3,924** | **78** |
| Impairment charges | -448 | 103 | - |
| **Business profit** | **5,494** | **3,821** | **70** |
| Legacy derivatives | 1,366 | 219 | 16 |
| **Profit before tax** | **6,860** | **4,040** | **59** |
| Tax | 1,433 | 781 | 55 |
| **Profit** | **5,427** | **3,259** | **60** |

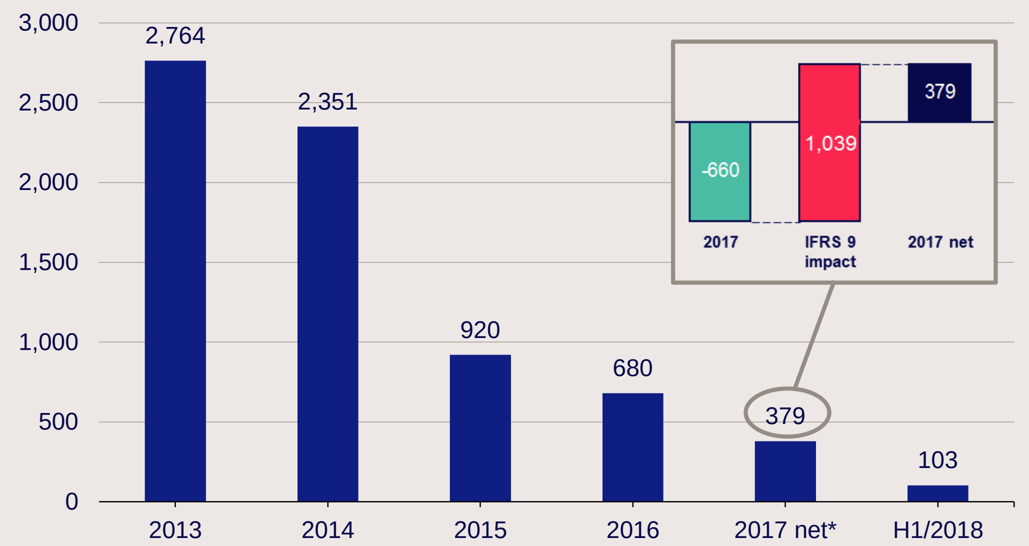
# Impairments remain low. Income and profits ahead of expectations

## Income of DKK 6,337m excluding 100m net KundeKroner

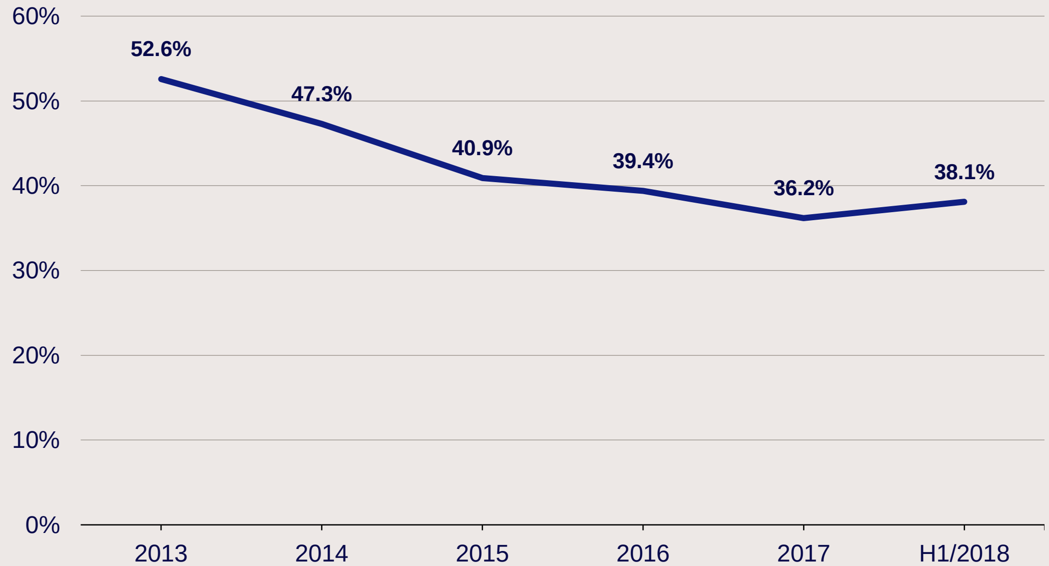



* Excluding DKK 68m of KundeKroner net.

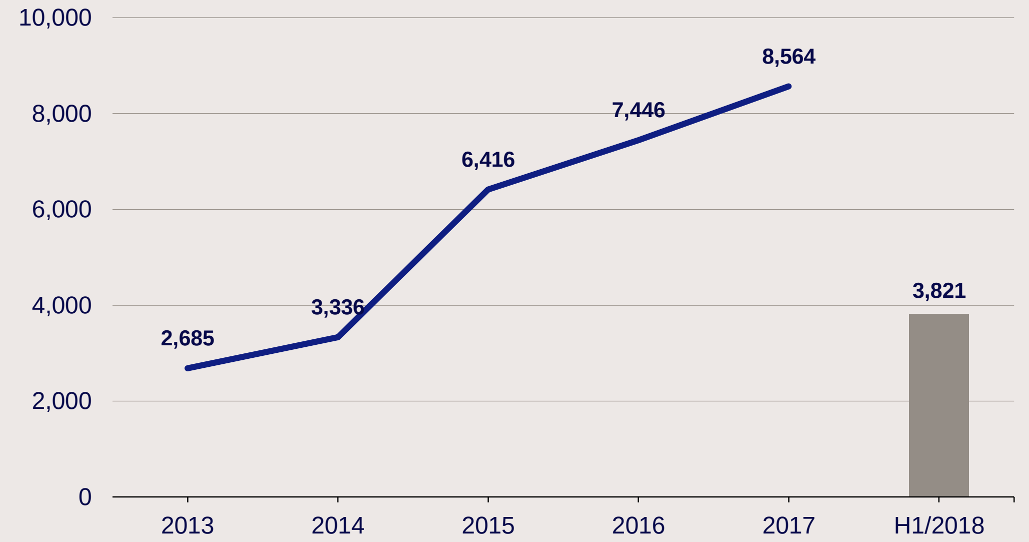
## Impairment charges, DKKm




## Group operational cost:income ratio




## Business profit, DKKm



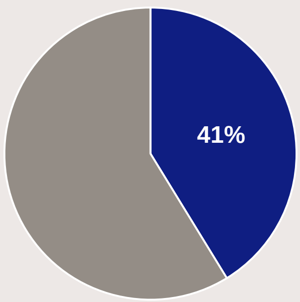

Source: Nykredit Q2/2018 report

# Bank lending up 2.6% in Retail and 13% in Wholesale business units

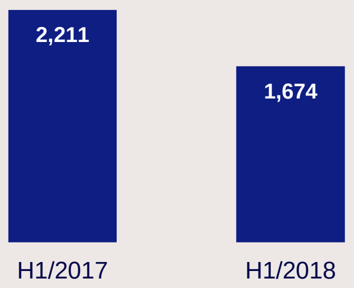
## Retail

- Satisfactory inflow of full-service customers
- Bank lending including Secured Homeowner Loans up by 2.6% driven by inflow of new private customers and Secured Homeowner Loans
- Mortgage lending down 2% driven by non-bank personal customers
- Business profit of 1.7bn driven by lower trading income, fees and higher impairment charges compared to H1/2017
- Credit quality fundamentally strong reflected in low impairment charges
  - Higher impairments driven mainly by IFRS9 calibration and a court case

Share of group business profit




Business profit, DKKm

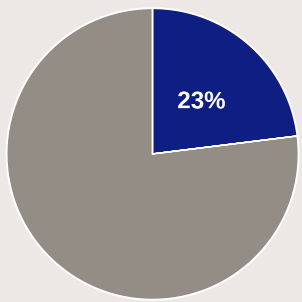



| Retail (Personal and Business), DKKm | End-2017 | H1/2018 | | Index |
|---|---|---|---|---|
| Mortgage lending | 408,499 | 402,296 | | 98 |
| Bank lending | 30,241 | 30,137 | 102.6 | 100 |
| Secured homeowner loans | 5,548 | 6,568 | | 118 |
| Deposits | 46,646 | 47,201 | | 101 |

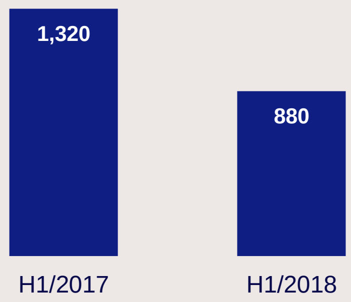
## Wholesale

- Bank lending up by 13% while mortgage lending increased by 2%
- Customer driven income in line with last year.
- Lower trading and investment portfolio income drives total income 8% lower
- Business profit of 0.9bn driven by lower trading income and less impairment reversals compared to H1/2017
- Credit quality remains strong with virtually no new impairment charges

Share of group business profit




Business profit, DKKm



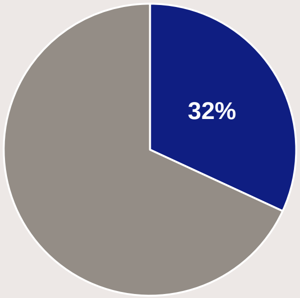

| Wholesale (CIB and Markets), DKKm | End-2017 | H1/2018 | Index |
|---|---|---|---|
| Mortgage lending | 185,734 | 188,794 | 102 |
| Bank lending | 19,672 | 22,206 | 113 |
| Secured homeowner loans | 837 | 1,018 | 122 |
| Deposits | 14,164 | 10,167 | 72 |

# Strong growth in Totalkredit Partners and Wealth Management

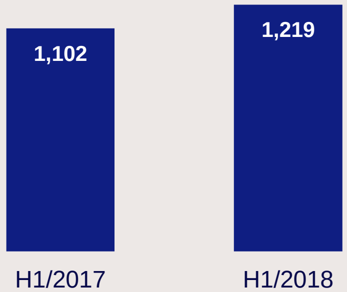
## Totalkredit Partners

- Totalkredit sees consistently high inflow of new customers
  - Supported by strong distribution power of partner banks
  - KundeKroner beginning to show effect
- Volume up 3% since end-2017
- Business profit of 1.2bn. Increase from 2017 entirely driven by impairment charges turning to an income compared to H1/2017
- Credit quality remains very strong and impairment charges showing an income of DKK 44m

Share of group business profit




Business profit, DKKm

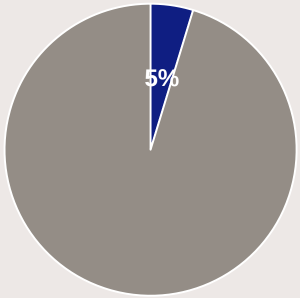



| Totalkredit, DKKm | End-2017 | H1/2018 | Index |
|---|---|---|---|
| Mortgage lending | 519,818 | 535,022 | 103 |
| Secured homeowner loans | 10,923 | 11,338 | 104 |

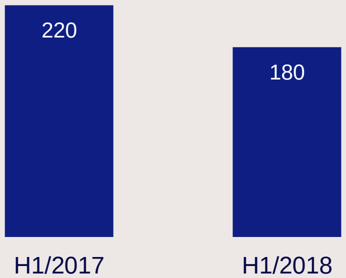
## Wealth Management

- Assets under Management up 13%
- Business result somewhat lower than last year due to impairment charges and higher costs
- Business profit of 0.2bn broadly in line with last year

Share of group business profit




Business profit, DKKm




| Wealth Management, DKKm | End-2017 | H1/2018 | Index |
|---|---|---|---|
| Lending | 10,779 | 11,679 | 108 |
| Deposits | 13,464 | 12,060 | 90 |
| Assets under Management | 178,906 | 202,425 | 113 |
| Assets under Administration | 792,710 | 688,620 | 87 |

# Good Q2 with customer driven income up 2%

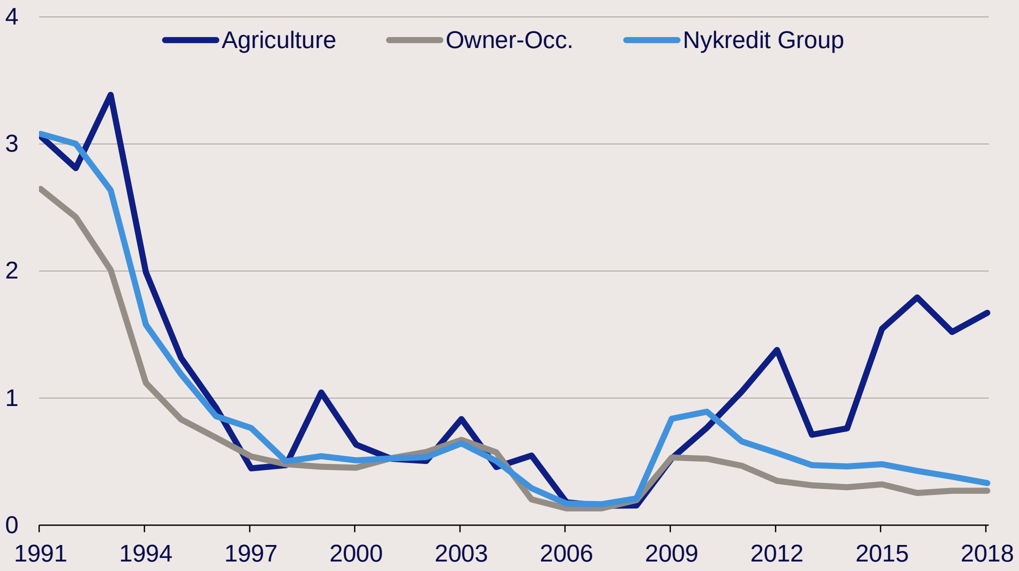
## Business results

- Income from customer business up 2% in Q2 compared to Q1
  - NII up 1%, Wealth Management income +14% and Net Fees down 4%
  - Decline in total income entirely driven by volatile Trading, investment portfolio and other income
- Costs increase 2% in Q2 but we still expect to see full year cost below the level in 2017
- Slight increase in impairment charges due to a few large exposures in Nykredit Bank
- Business profit of DKK 1.8bn for Q2 satisfactory and ahead of our expectations

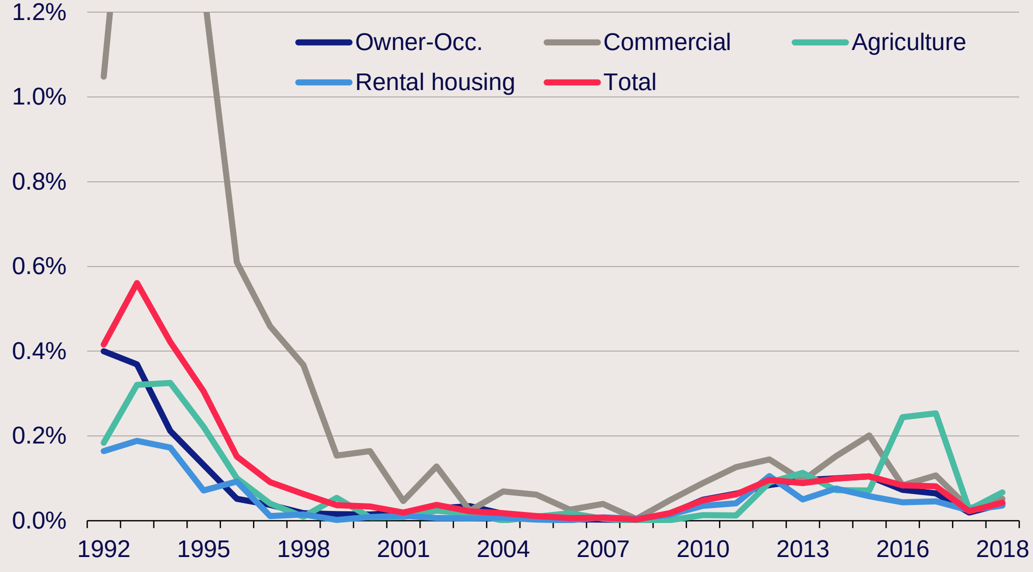
| DKKm | Q1/2018 | Q2/2018 | | Index |
|---|---|---|---|---|
| **Income** | **3,221** | **3,116** | | **97** |
| - Net interest Income | 2,214 | 2,240 | | 101 |
| - Net fee income | 524 | 503 | 102 | 96 |
| - Wealth management income | 313 | 357 | | 114 |
| - Net interest from capitalisation | -90 | -86 | | 96 |
| - Trading, investment portfolio and other income | 261 | 102 | | 39 |
| Costs | 1,196 | 1,217 | | 102 |
| **Business profit before impairment charges** | **2,025** | **1,899** | | **94** |
| Impairment charges | -8 | 110 | | - |
| **Business profit** | **2,033** | **1,788** | | **88** |
| Legacy derivatives | 24 | 195 | | 813 |
| **Profit before tax** | **2,057** | **1,983** | | **96** |
| Tax | 395 | 386 | | 98 |
| **Profit** | **1,662** | **1,597** | | **96** |

# Credit quality remains strong but agriculture is challenged

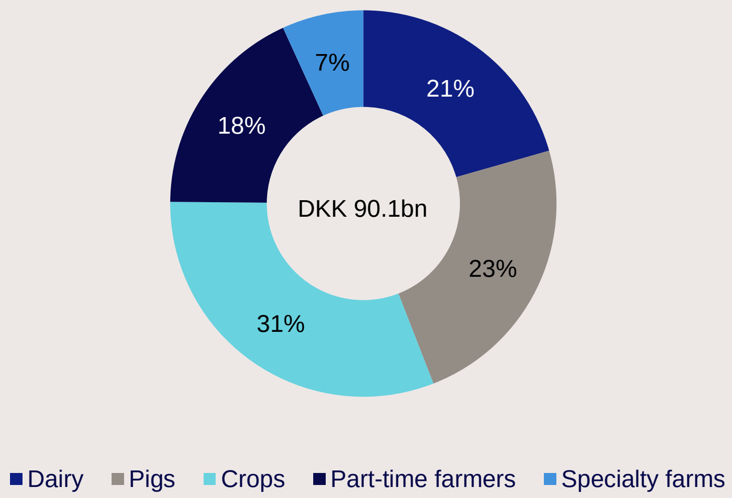
## 75-day mortgage arrears, %




## Mortgage lending: Write-offs as a % of debt




## Nykredit's mortgage exposure to agriculture




## Agricultural exposure and provisions, DKKbn

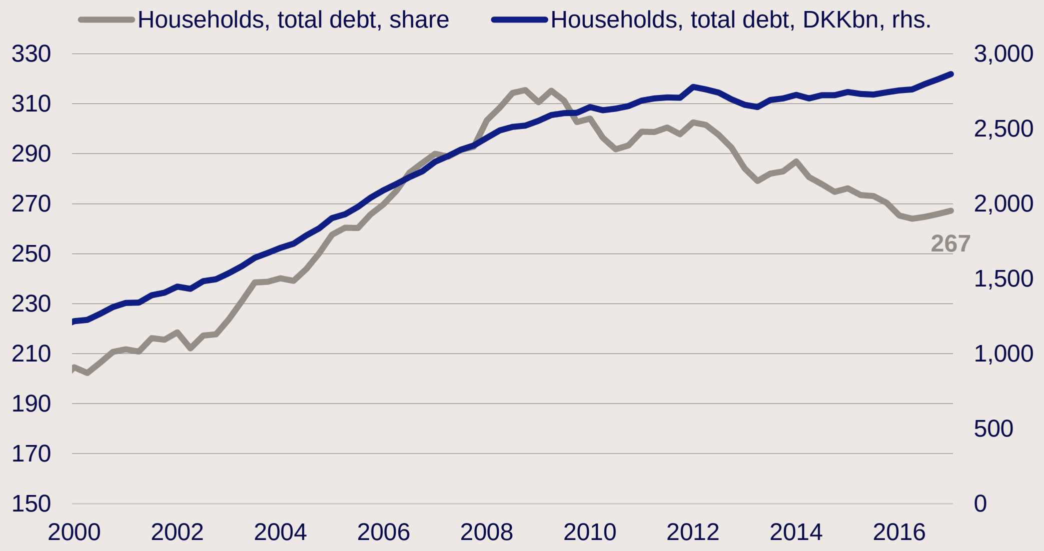
| | Exposure | Provisions | Maximum LTV | Indexed LTV |
|---|---|---|---|---|
| Mortgage lending | 90.1 | 1.3 | 60/70% | Avg.: 63%<br>Median: 29% |
| Bank lending | 3.2 | 0.1 | - | - |

- Total mortgage exposure of DKK 90.1bn
  - DKK 80.6bn is below 60% indexed-LTV
  - DKK 7.6bn is between 60% and 80% indexed-LTV
  - DKK 2.0bn is above 80% indexed-LTV
- Nykredit has provisioned adequately

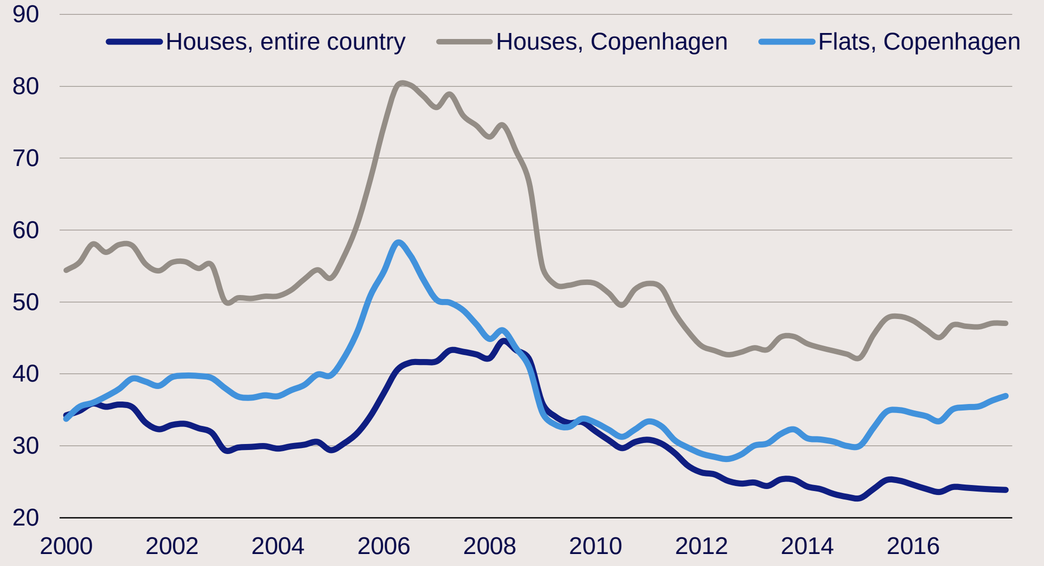
Source: Nykredit Group Q2/2018 report and Fact Book

# Housing markets remains strong and supports credit quality

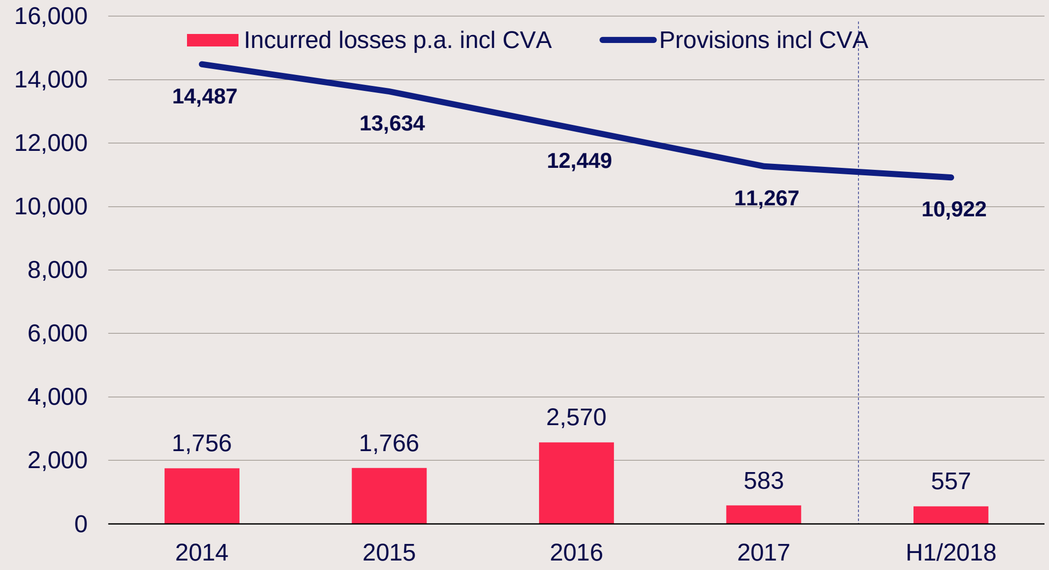
## Debt share of disposable income




## Housing burden, % of disposable income




## Total impairment provisions and write-offs, DKKm




## Credit metrics

| % | 2014 | 2015 | 2016 | 2017 | Q2/2018 |
|---|---|---|---|---|---|
| Impairment charges | | | | | |
| - Mortgage lending | 0.19 | 0.09 | 0.07 | 0.04 | -0.01 |
| - Bank lending | 0.22 | -0.12 | -0.15 | -0.15 | 0.13 |
| Nykredit Group | | | | | |
| - Non-performing loans | 2.47 | 2.56 | 2.47 | 2.03 | 2.02 |
| - Cover ratio* | 31.5 | 28.7 | 28.9 | 32.4 | 33.0 |
| Acquired properties, stock | 239 | 159 | 114 | 63 | 35 |

*Reserves for impaired loans / impaired loans

Source: Nykredit Group Q2/2018 report and Fact Book and Statistics Denmark

# Strong CET1 ratio and issuance of Senior Non-Preferred debt

## Capital development in H1/2018

- REA up 3% driven by higher loan volumes and operational risk
- CET1 ratio amounts to 20.5%
  - Significantly above capital policy of 15.5 – 16.5% CET1 but in line with target of maintaining buffer for Basel IV impact
- CET1 accumulation of DKK 1.9bn in H1/2018
- No current plans to issue AT1 or Tier 2 capital

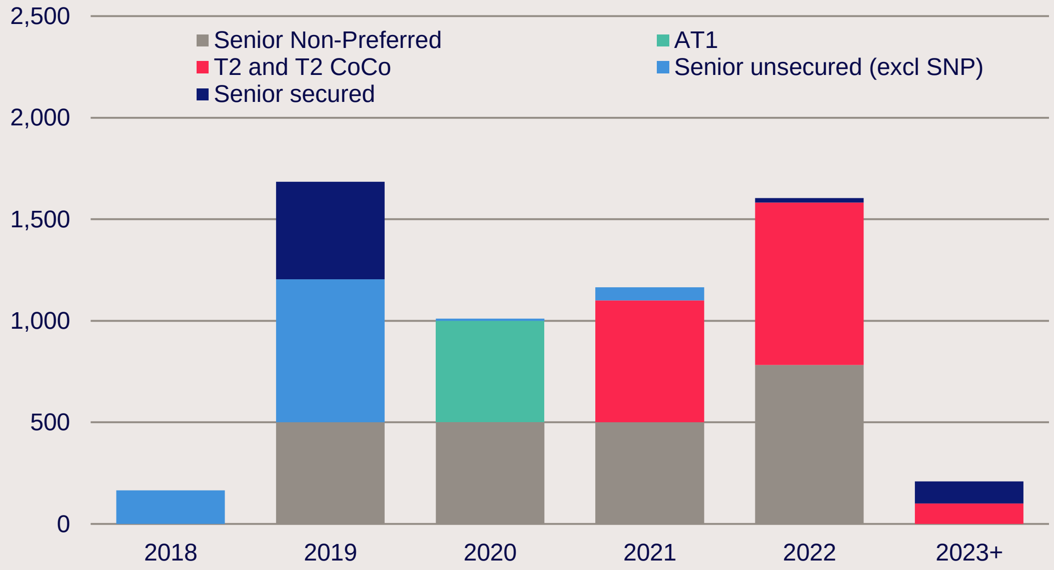
## Group facts

| Nykredit Group | End-2017 | H1/2018 |
|---|---|---|
| Risk Exposure Amount (REA) | 335.7bn | 346.8bn |
| CET1 | 69.4bn | 71.3bn |
| CET1 ratio | 20.6% | 20.5% |
| Total capital ratio | 23.9% | 23.0% |
| Leverage ratio | 4.6% | 4.8% |
| Pillar I | 8.0 | 8.0 |
| Pillar II | 2.2 | 2.1 |
| Solvency requirements | 10.2 | 10.1 |

## Funding plans

- Nykredit issued EUR 500m of Senior Non-Preferred debt in early July
- We expect to issue DKK 0-5bn of Senior Non-Preferred debt in the remainder of 2018
- New law will increase amount of bail-inable liabilities from currently DKK 100bn to 120-130bn by end-2021
- Part of the increase will be covered by refinancing of senior debt types
- Covered bonds issued daily and in quarterly auctions
- Quarterly refinancing auction of covered bonds running this week with sale of DKK 42bn worth of bonds

## Nykredit Group maturity profile, EURm




Source: Nykredit company reports

# Concluding remarks

| | |
|---|---|
| **A good first half year** | ▪ Profits for H1/2017 is very satisfactory and better than expected<br>▪ Healthy inflow of customers and healthy volume growth in both mortgage lending, banking and Wealth Management<br>▪ Overall credit quality remains strong and loan loss provisions are expected to remain low<br>▪ Agriculture is a risk factor, but we have provisioned adequately |
| **2018 guidance** | ▪ Guidance for profit before tax for 2018 maintained DKK 6.5 to 7.5bn<br>▪ We maintain our guidance, but based on events in H1/2018, including strong growth in customer activities, we now expect profit to be at the high end of the range<br>▪ The most significant risk relates to impairments, particularly for agricultural customers as a result of the drought, and to investment portfolio income and derivatives as a result of, among other things, interest rate movements |

# Q & A

# Nykredit Group financial ratios

| | 2014 | 2015 | 2016 | 2017 | Q21/2018 |
|---|---|---|---|---|---|
| **Net interest income**<br>- as % of lending and deposits | 0.69 | 0.69 | 0.71 | 0.70 | 0.70 |
| **Profit (loss) for the period**<br>- as % pa of average equity | -0.5 | 5.0 | 8.0 | 10.9 | 8.6 |
| **Total assets, DKKbn** | 1,457.3 | 1,383.8 | 1,400.6 | 1,426.7 | 1,422.3 |
| **Risk Exposure Amount (REA), DKKbn** | 358.7 | 310.3 | 348.4 | 335.7 | 346.8 |
| **Leverage ratio, %** | - | - | 5.0 | 4.6 | 4.8 |
| **Total capital ratio, %** | 17.2 | 20.7 | 21.9 | 23.9 | 22.6 |
| **CET1 capital ratio, %** | 15.4 | 19.4 | 18.8 | 20.6 | 20.1 |

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

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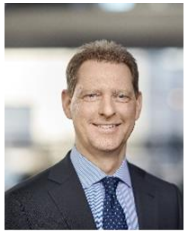

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