

# Nykredit Group

**Q3/2016 earnings call**

CRO Group Managing Director  
Søren Holm

10 November 2016



**Nykredit**

# Highlights from Q1-Q3/2016

## Business results

- Profit from core business up 5% compared to same period last year
  - Top-line 2% lower than very high Q1-Q3/2015
  - Costs reduced according to plan
  - Loan loss provisions still low due to increasing property prices and economic growth
- Negative value adjustments for swaps amount to DKK 1,274m
- Guidance for full year profit from core business maintained at DKK 5-5.5bn
- 9.2% core business return on equity

## Business units

- Market share of total mortgage lending a satisfactory 39.3% (excluding loans arranged by Jyske Bank) even though the portfolio decreased by DKK 10bn compared to end-2015
- Totalkredit lending increased by DKK 6.1bn despite run-off of Jyske Bank portfolio
- Bank lending and deposits increased by 14% and 4% respectively compared to end-2015
- Increase in Assets under Management in Wealth Management
- Profitability increased as some low margin and price sensitive loans have been redeemed

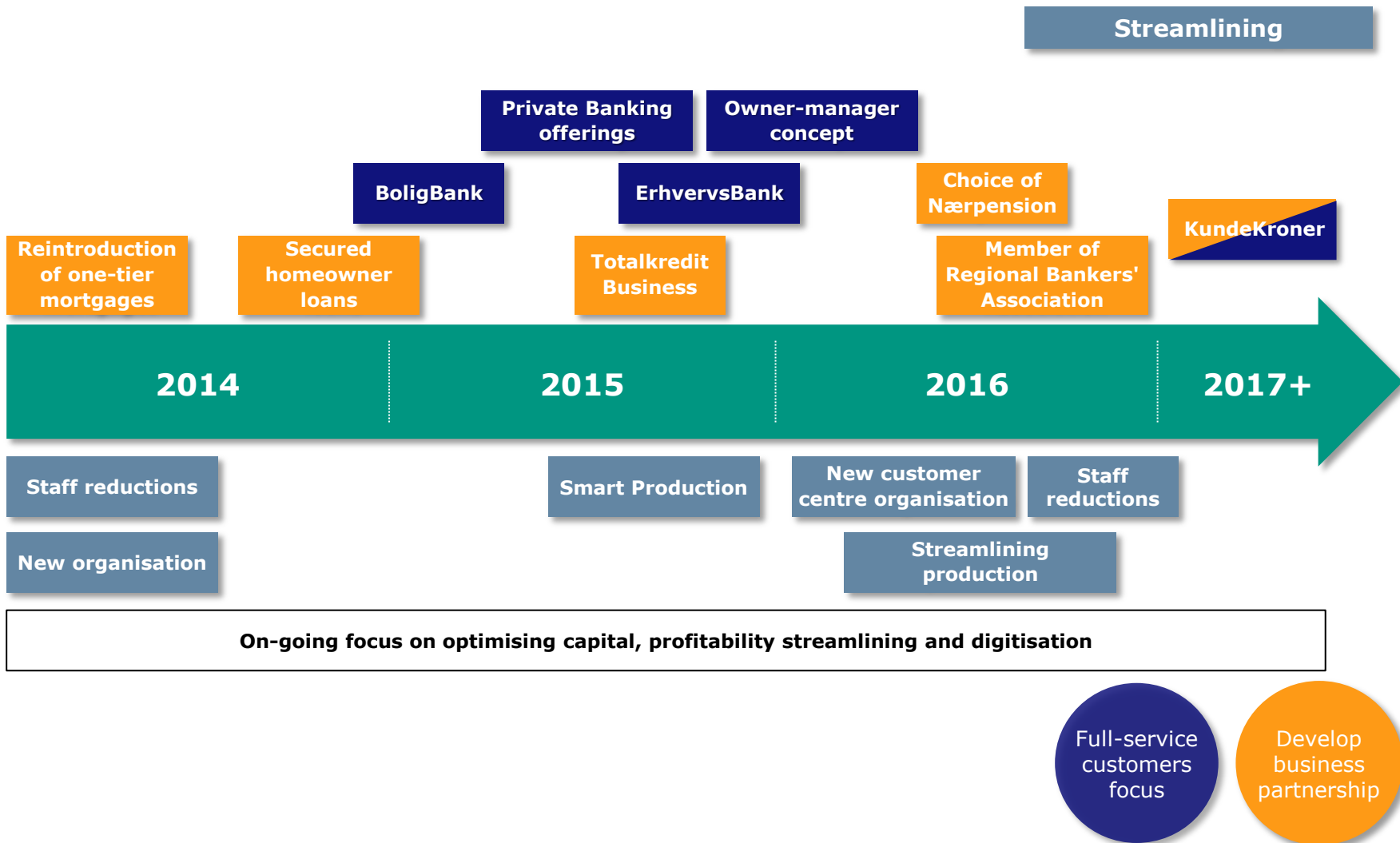
## Status on strategy implementation

- Top line growth on track
- Cost reductions proceed according to plan
- Cost:Income ratio now below 40%
- Head quarter buildings sold

## IPO

- IPO preparations progressing according to plan
- Focus on internal processes and governance

# Strategic initiatives in relation to Winning the Double



## Profit from core business up 5%

DKKm	2015	Q1-3/2015	Q1-3/2016	Index
Core income from business operations	11,945	9,122	8,962	98
Securities and debt (senior and subordinated)	(572)	(454)	(363)	80
<b>Income from core business</b>	<b>11,373</b>	<b>8,668</b>	<b>8,599</b>	<b>99</b>
Operating costs, depreciation and amortisation	5,005	3,604	3,580	99
Danish resolution fund	61	46	104	226
<b>Core earnings before impairment losses</b>	<b>6,307</b>	<b>5,018</b>	<b>4,915</b>	<b>98</b>
Impairment losses on loans and advances	920	693	385	56
<b>Core business earnings after impairment losses</b>	<b>5,387</b>	<b>4,325</b>	<b>4,530</b>	<b>105</b>
Value adjustments of derivatives due to interest rate chg.	685	521	(1,334)	-
Other value adjustments of interest rate swaps	(275)	(309)	60	-
Goodwill adjustments	1,965	1,907	-	-
Investment portfolio income	853	481	1,113	231
<b>Profit before tax</b>	<b>4,685</b>	<b>3,111</b>	<b>4,370</b>	<b>140</b>
AT1 interest payable classified as dividend	197	138	174	126
Value adjustment of strategic equities against equity	7	254	38	15

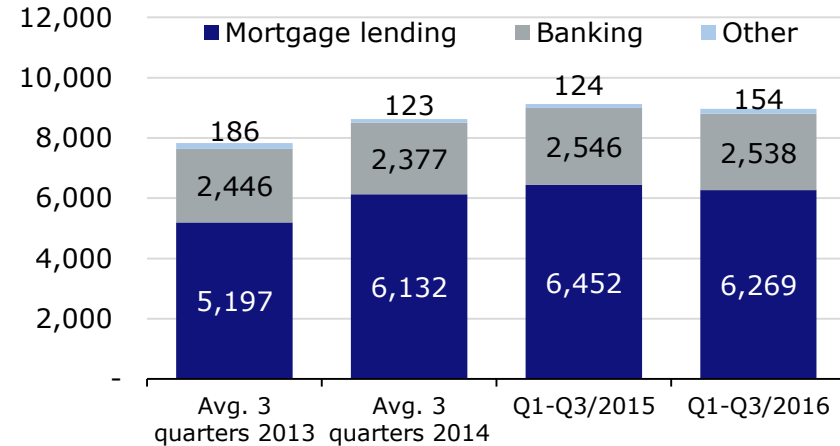
Source: Nykredit Q3/2016 report

# Costs declining and profit from core business increasing

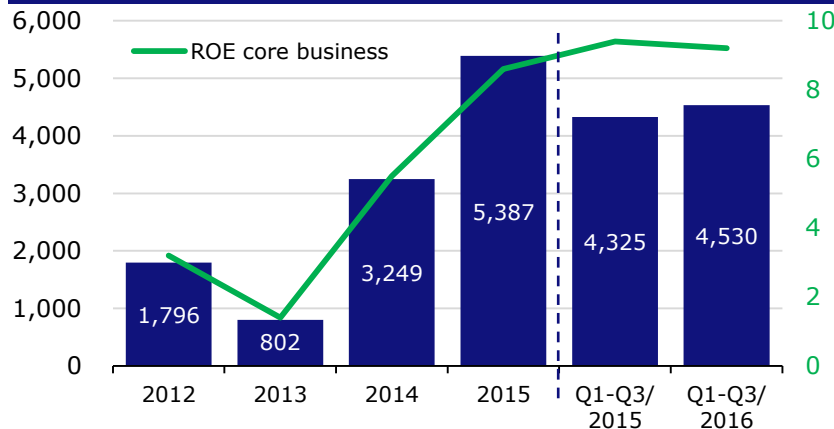
## Earnings guidance maintained

- Full-year profit guidance maintained at around DKK 5.0bn-5.5bn
- Core earnings from business operations marginally lower than 2015 where re-mortgaging activity where extraordinarily high
- Ongoing cost reductions
- Announced redundancies has no impact on Q3 results

## Core earnings from business operations, DKKm



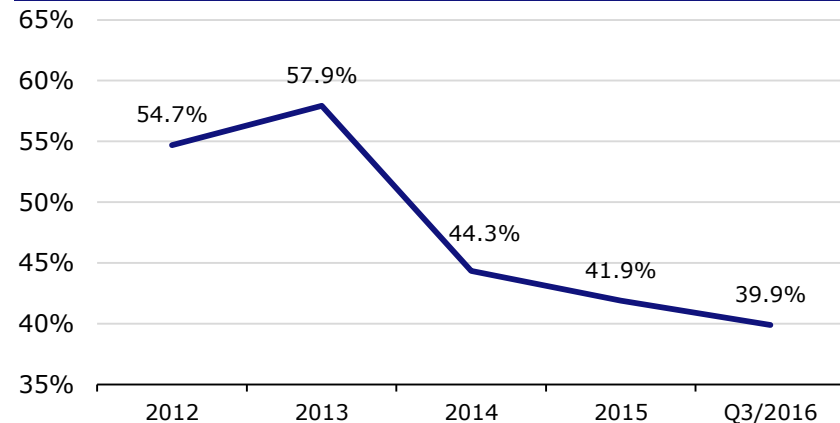
## Profit from core business, DKKm, % of avg eqt



RHS: Profit from core business, % pa of avg. equity

Source: Nykredit Q3/2016 report

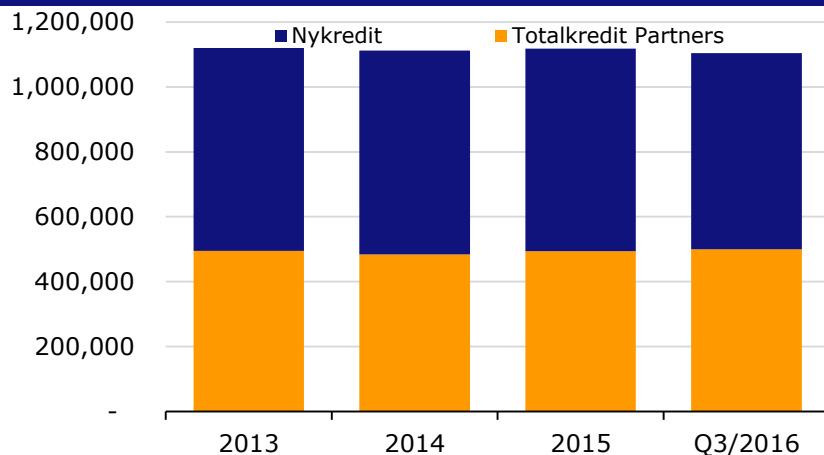
## Group cost:income ratio



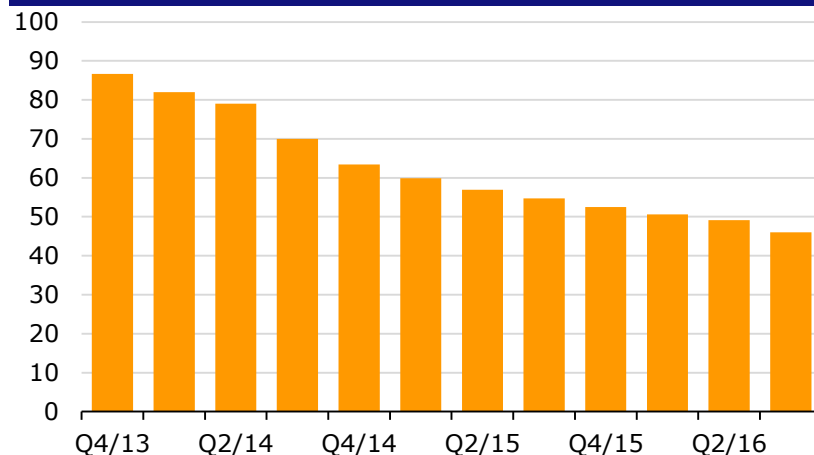
Note: Operating costs, depreciation and amortisation, excl special value adjustments as % of core earnings from business operations

# Normalised new lending but growing business volume

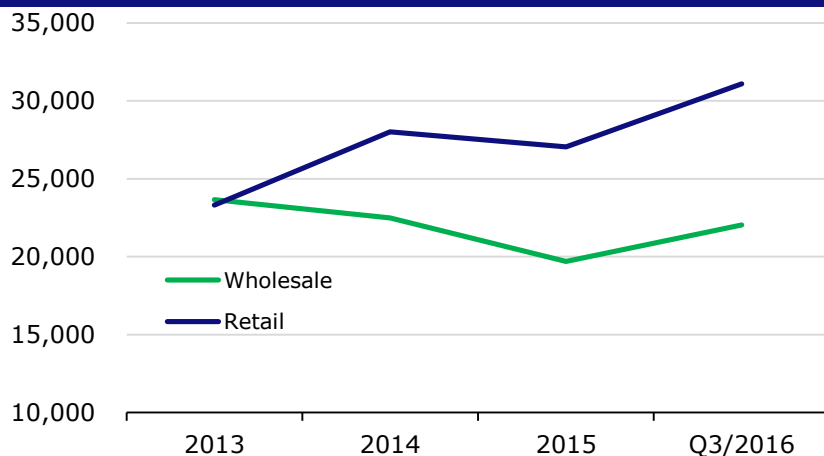
## Mortgage lending (portfolio), DKKm



## Loans originated by Jyske Bank, DKKbn



## Bank lending (portfolio), DKKm



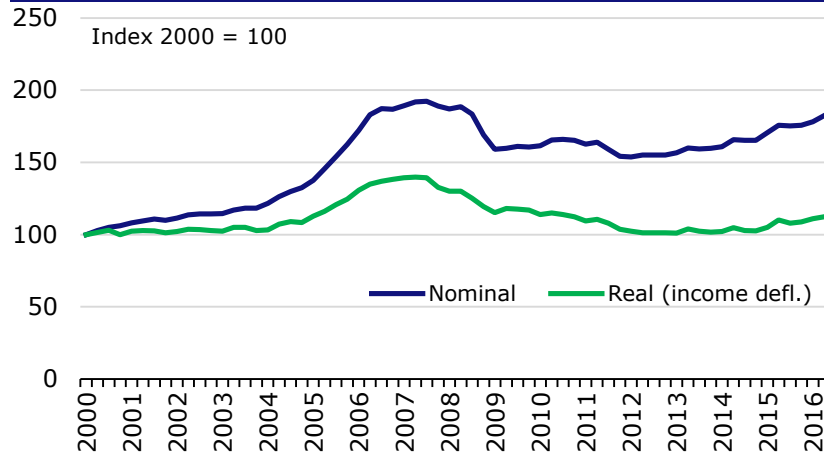
## Comments

- Mortgage lending in Totalkredit increased by DKK 6.1bn despite run off of Jyske Bank portfolio
- Extraordinary high gross lending in Q1-Q3/2015 due to low 30-year mortgage rates. More normal level in 2016
- Bank lending to both Retail and Wholesale clients increased by a total of DKK 6.4bn compared to year-end 2015
- Deposits from Retail clients was growing while deposits from Wholesale clients was declining. In total deposits grew by DKK 2.3bn compared to year-end 2015

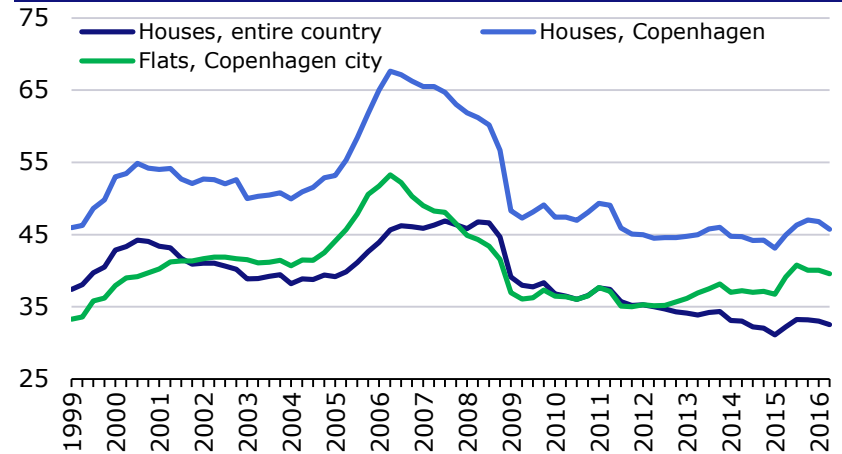
Source: Nykredit Reports

# Danish housing market recovering

## House price inflation, Denmark



## Housing burden, % of disposable income

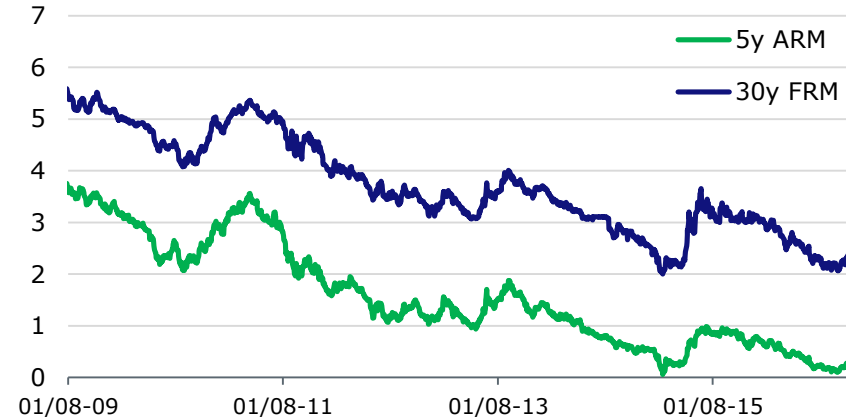


The index describes the housing burden of a first time buyer as the combined housing expenses including 30Y fixed rate financing as the percentage of disposable income

## Danish economy and household finances

- GDP growth expected at approx. 1.0% in 2016 and 1.4% in 2017
- Household fundamentals are strong due to low unemployment. Consumption is still growing moderately due to focus on bringing down debt
- Real house prices are recovering – primarily in and around major cities
- Low interest rates support the property market

## DKK covered bond rates, % pa



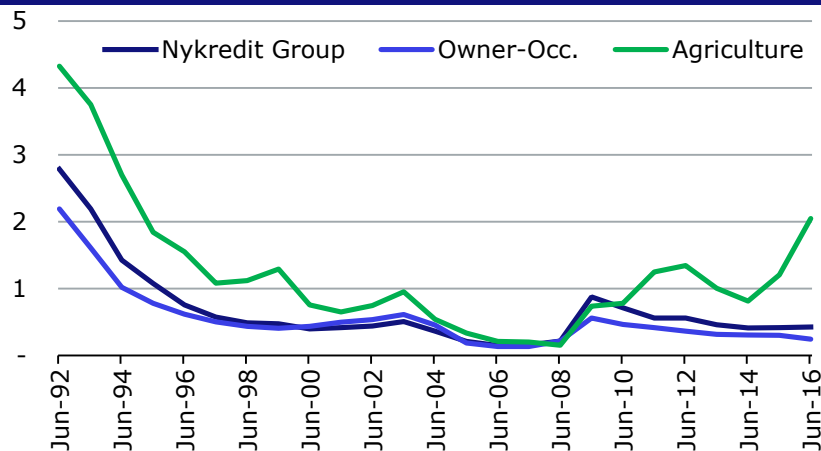
Source: Macrobond, Nykredit Markets, Statistics Denmark, cover pool

# Arrears remain low with agriculture as the exemption

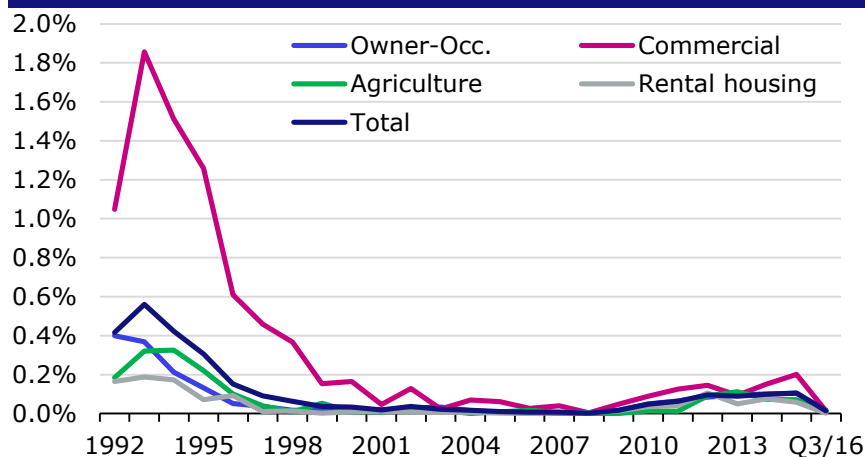
## Mortgage lending: Indexed LTVs (current house prices)

	0-40%	40-80%	> 80%	Avg LTV	Share
Residential	46.4%	28%	2.5%	<b>70.1%</b>	<b>76.9%</b>
Commercial	9.6%	2.6%	0.2%	<b>52.7%</b>	<b>12.4%</b>
Agriculture	6.5%	2.4%	0.2%	<b>58.9%</b>	<b>9.1%</b>
Other	1.3%	0.3%	0.0%	<b>50.9%</b>	<b>1.6%</b>
<b>Total</b>	<b>63.8%</b>	<b>33.4%</b>	<b>2.9%</b>	<b>65.1%</b>	<b>100.0%</b>

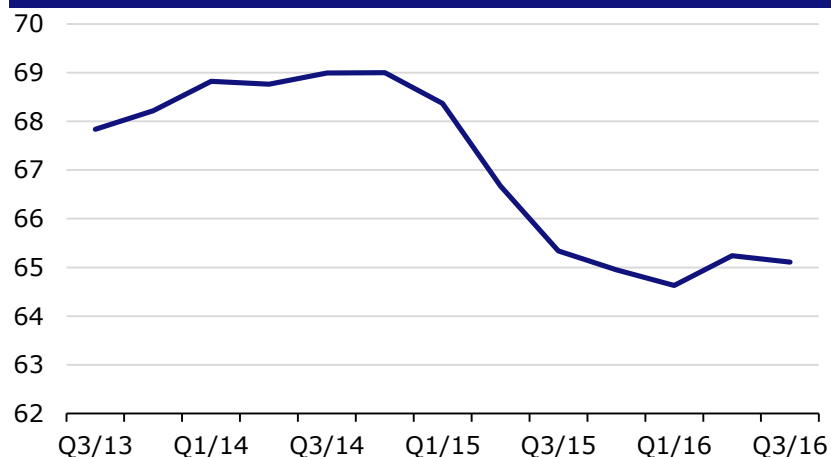
## 75-day arrears, %



## Mortgage lending: Incurred loss as % of debt



## Avg. LTV for all segments, %



The LTV is calculated on the basis of the top LTV bracket for the loans granted  
 Source: Nykredit Q3/2016 Report, Cover Pool disclosure reports



# Impairments and cover ratio reflect low risk mortgage business

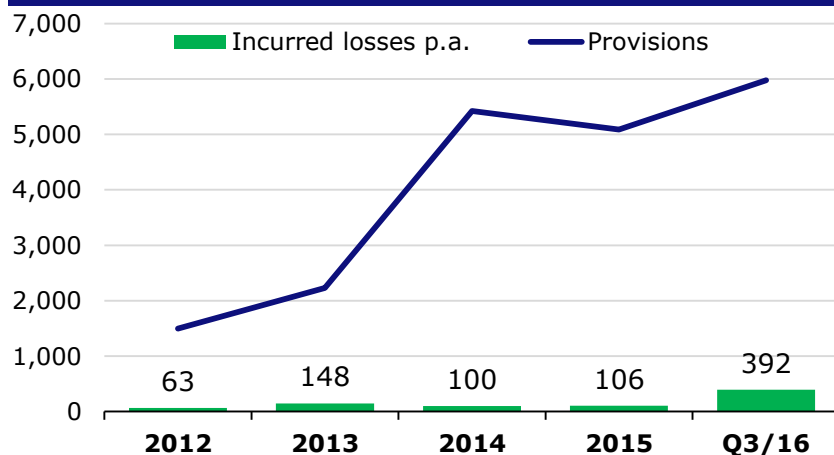
## Comments

- Foreclosures are at a very low level
- Nykredit has financed 650,000 properties and has only a portfolio of 108 properties acquired by foreclosure compared to 159 at year-end 2015
- Group NPL at 2.34% with a cover ratio of 29% reflecting the collateralized nature of the Group's lending
- Total impairment provisions from agriculture increased by DKK 184m in Q2 and DKK 73m for Q3

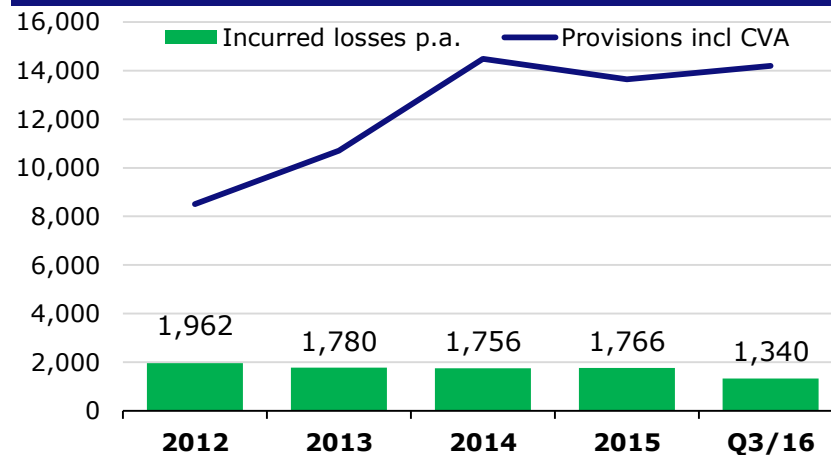
## Fixed-rate swaps and step-up interest derivatives

Q3/2016 DKKbn / %	Negative market value	Total impairment provisions*	Impairment provision, % of market value
Housing cooperatives	8.7	4.6	53%
Agriculture	1.5	0.4	28%
Other	9.2	1.0	10%
<b>Total</b>	<b>19.4</b>	<b>6.0</b>	<b>31%</b>

## CVA provisions and incurred losses, DKKm

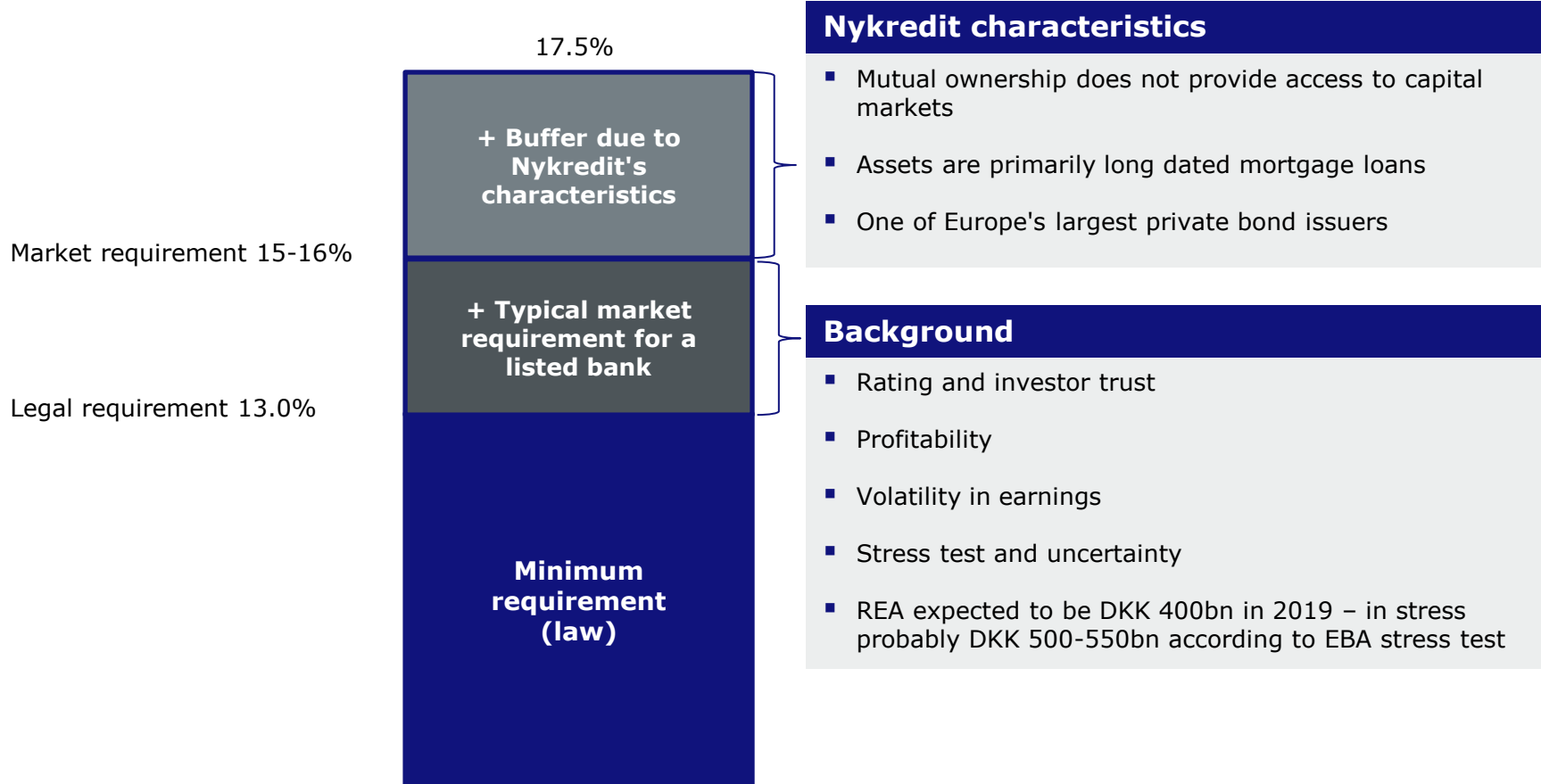


## Total provisions and incurred losses, DKKm

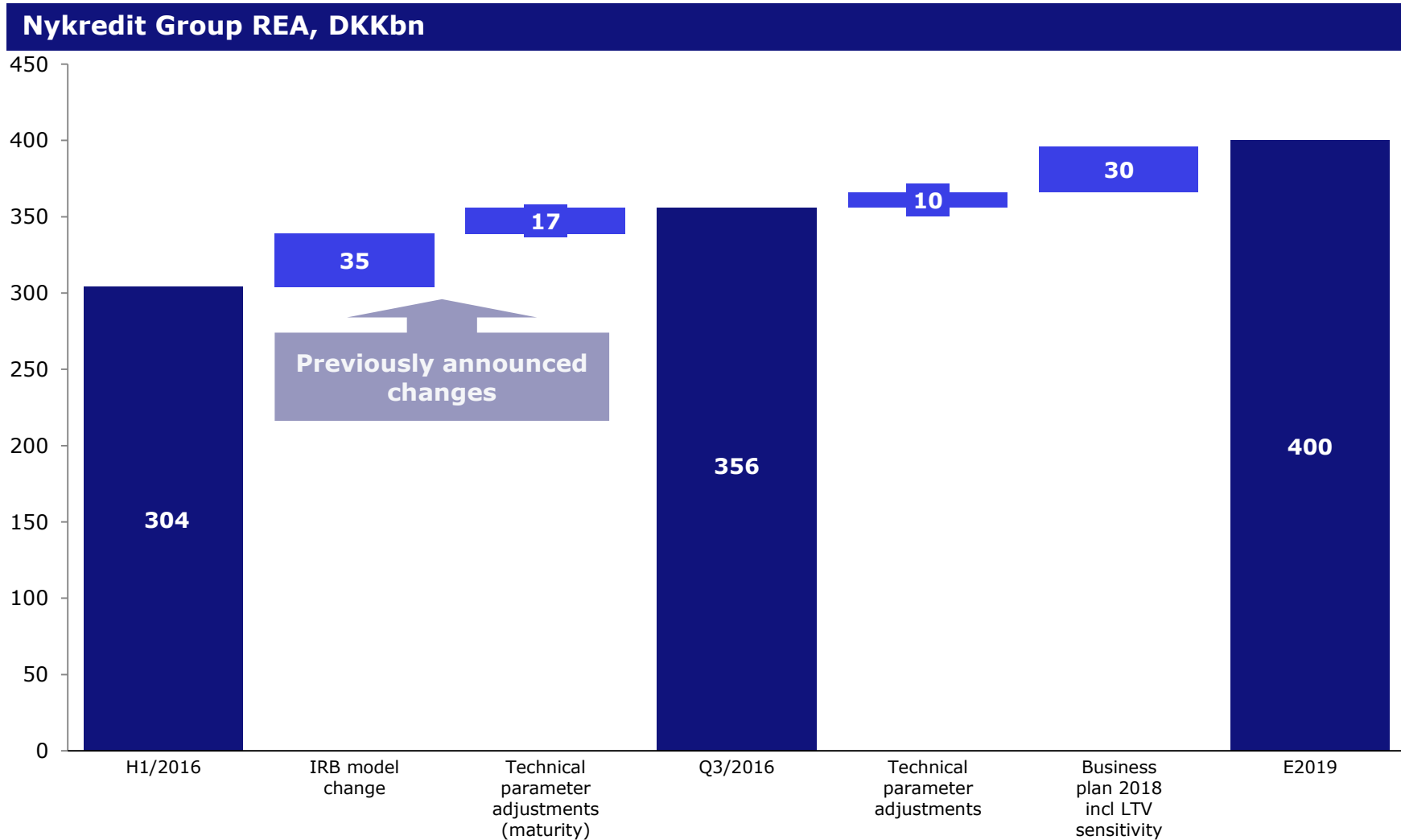


\* Reserves for impaired loans / impaired loans  
Source: Nykredit Q3/2016 Reports and Fact Book

# Current Nykredit capital target of 17.5% of REA



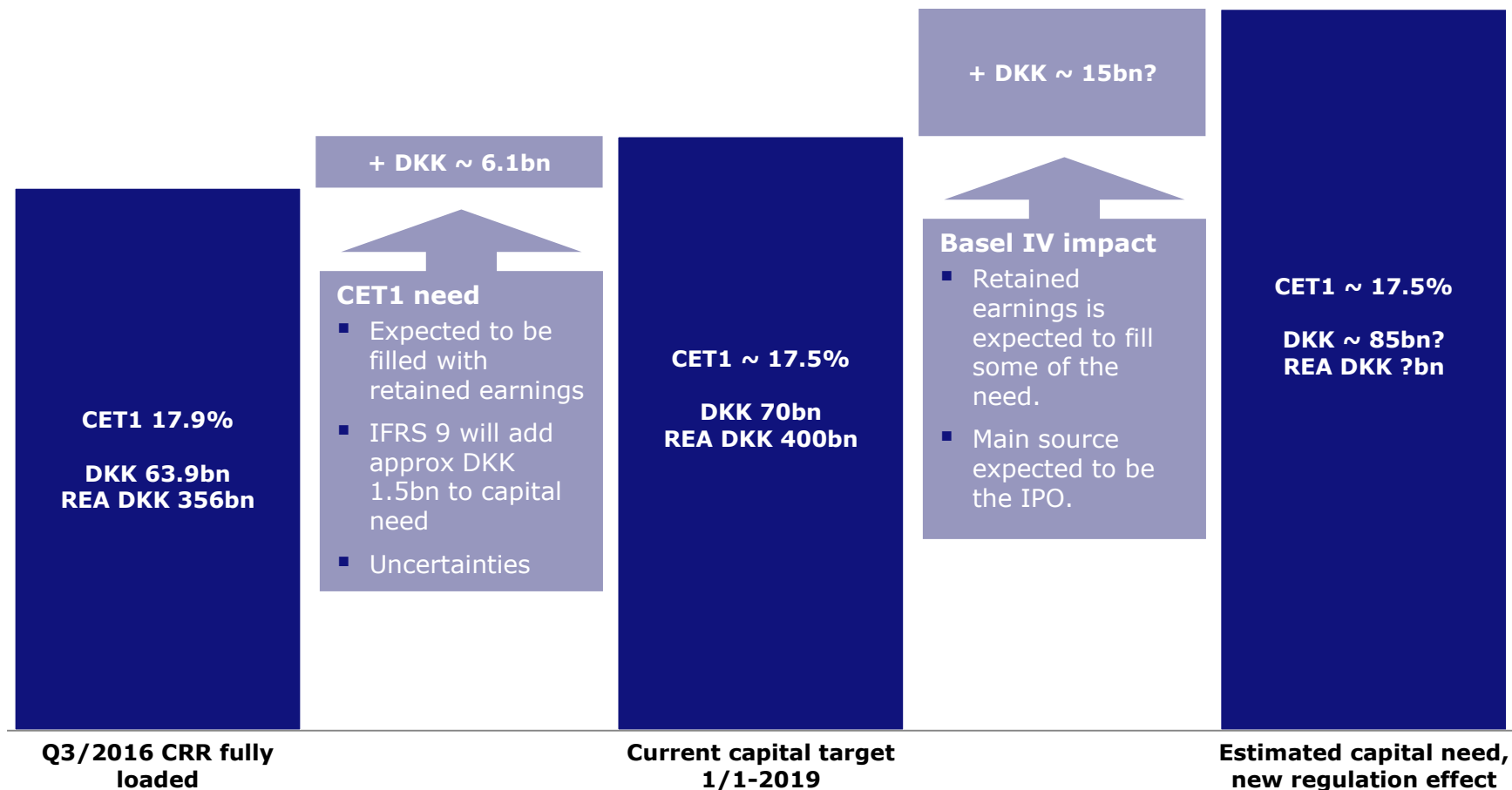
# Development in Risk Exposure Amount



Source: Nykredit Q3/2016 Report

# Nykredit needs more capital in the longer run

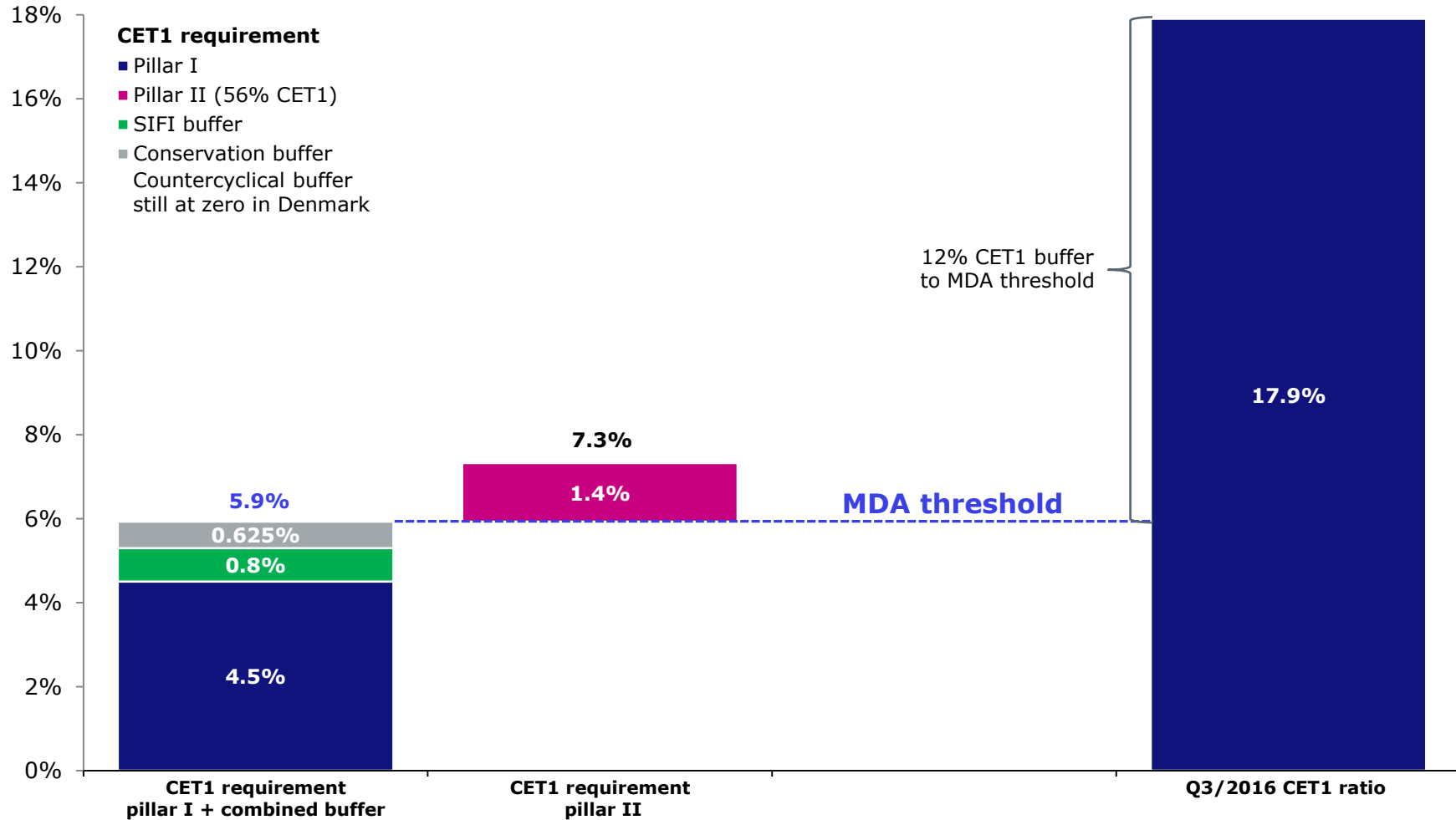
## Nykredit's capital targets and ratios (CRR fully loaded)



Source: Nykredit Q3/2016 Report and Fact Book

# Nykredit Group has a high buffer to MDA threshold

## 12% CET1 buffer to MDA threshold



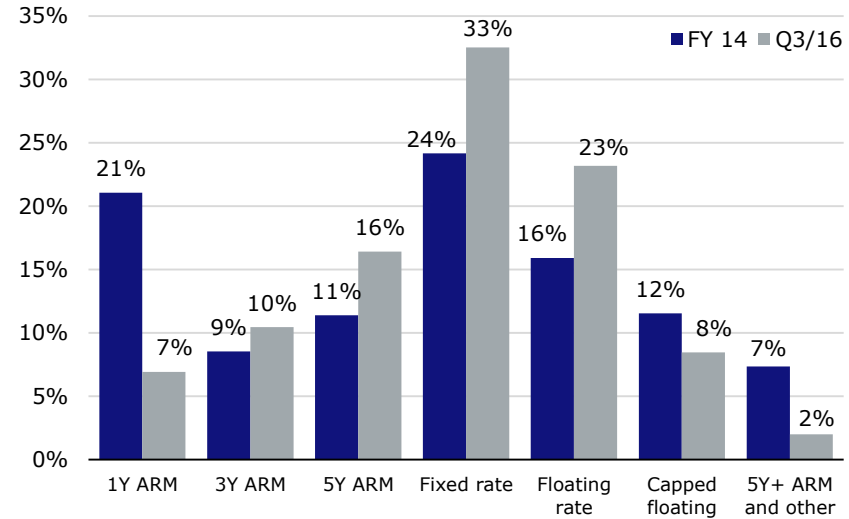
Source: Nykredit Q3/2016 Report and Fact Book

# S&P revises Nykredit's senior debt outlook to "Stable"

## Rating development

- In July S&P revised the Outlook for Nykredit's senior rating to "Stable"
- The revision was driven firstly by Nykredit issuing EUR 1bn of ALAC-eligible instruments in June and July...
- ... secondly by the extension of the maturity profile of the covered bond funding
- Nykredit sees significant customer appetite for long dated fixed rate mortgage loans funded to maturity
- Floating rate loans funded for 3-5 years are also very popular with client

## Nykredit loan portfolio composition progress



## Nykredit ratings

STANDARD  
& POOR'S

FitchRatings

Covered bonds	AAA	-
Senior unsecured debt	A	A
Short-term debt	A-1	F1
Outlook	Stable	Stable



Source: Nykredit Q3/2016 Report and Rating reports

# Funding

## Funding plans

- Nykredit expects to issue another EUR 0.7 to 1.5bn of ALAC-eligible instruments before end-2017

The ALAC instrument (Senior Resolution Notes) is issued out of "OpCo" Nykredit Realkredit A/S

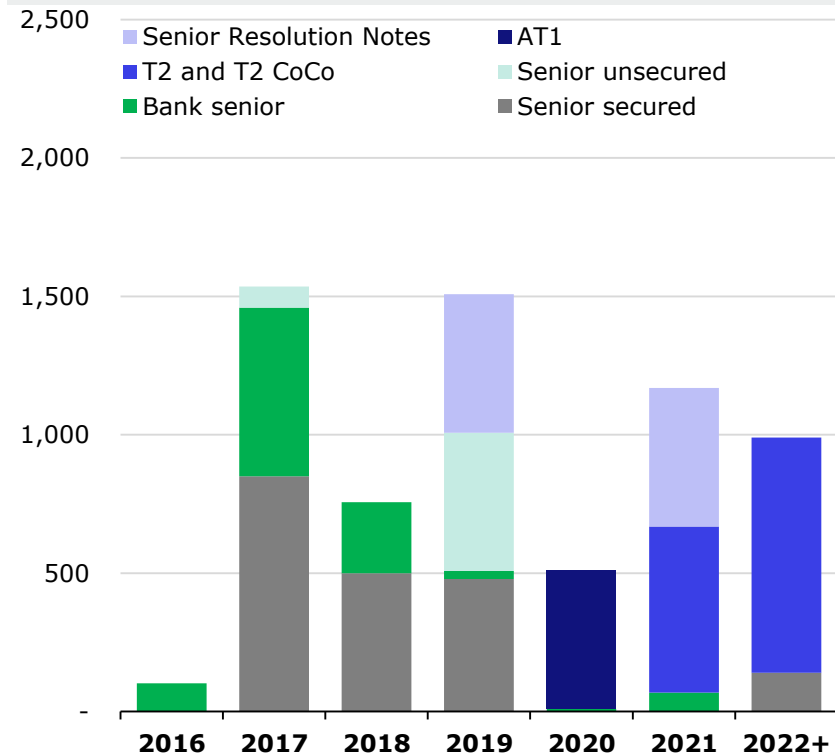
- Contractual loss absorption in resolution
- ALAC eligibility criteria incentivises 3-5 year maturities

- 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 Q3/2016 Report

## Nykredit Group maturity profile, EURm

- Profile excluding covered bonds, CP and deposits
- LCR levels end-Q3 2016:  
 Nykredit Realkredit Group: 313%  
 Mortgage institutions: 1,369%  
 Nykredit Bank A/S: 148%







## Nykredit Group – financial ratios

	2012	2013	2014	2015	Q3/16
<b>Net interest margin, %</b> - Nykredit Realkredit Group	0.80	0.75	0.82	0.86	0.82
<b>Profit (loss) for the period</b> - As % pa of average equity	4.6	2.9	(0.5)	5.0	7.0
<b>Profit (loss) before tax for the period</b> - As % pa of average equity	5.6	3.3	(0.3)	7.5	8.8
<b>Profit from core business for the period</b> - As % pa of average equity	3.2	1.4	5.5	8.6	9.2
<b>Total assets, DKKbn</b>	1,433.4	1,417.4	1,457.3	1,383.8	1,405.8
<b>Risk Exposure Amount (REA), DKKbn</b>	326.8	346.0	358.6	311.2	356.3
<b>Leverage ratio, %</b>	-	-	-	4.4	4.6
<b>S&amp;P RAC ratio (June 2016), %</b>					11.2
<b>Distance to MDA, not fully loaded, DKKbn</b>				38.4	37.9
<b>Distance to MDA, fully loaded, DKKbn</b>				35.6	37.9
<b>Available Distributable Items (ADI), DKKbn</b>				26.2	30.1
<b>Total capital ratio, %</b>	19.1	18.9	18.2	23.9	22.0
<b>CET1 capital ratio, %</b>	15.8	15.8	15.4	19.4	17.9

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 Q3/2016 Reports and Fact Book

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