

# Nykredit Group

FY 2017 Earnings call

Michael Rasmussen, CEO  
David Hellemann, CFO

8 February 2018  
Copenhagen

Numbers relate to  
Nykredit A/S

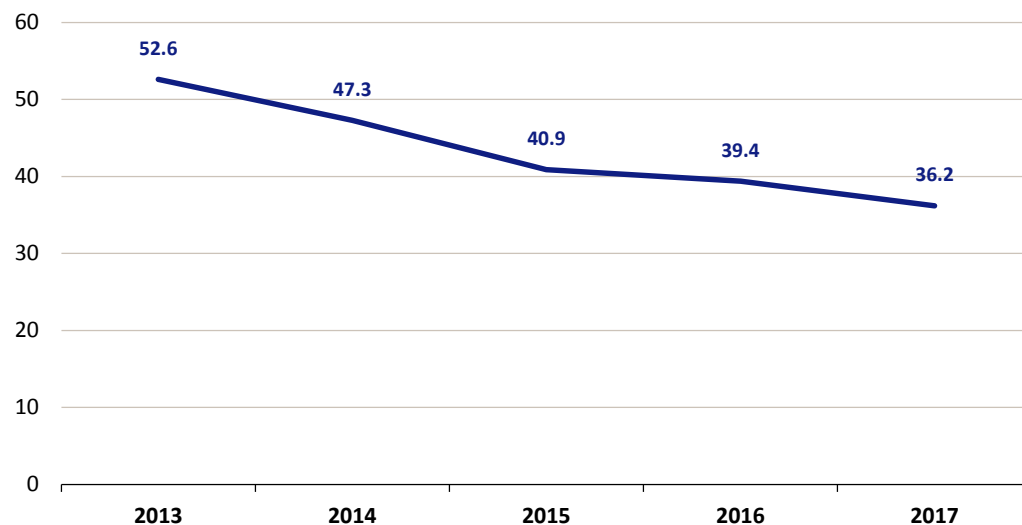


# A very satisfactory 2017 - Nykredit's best year ever

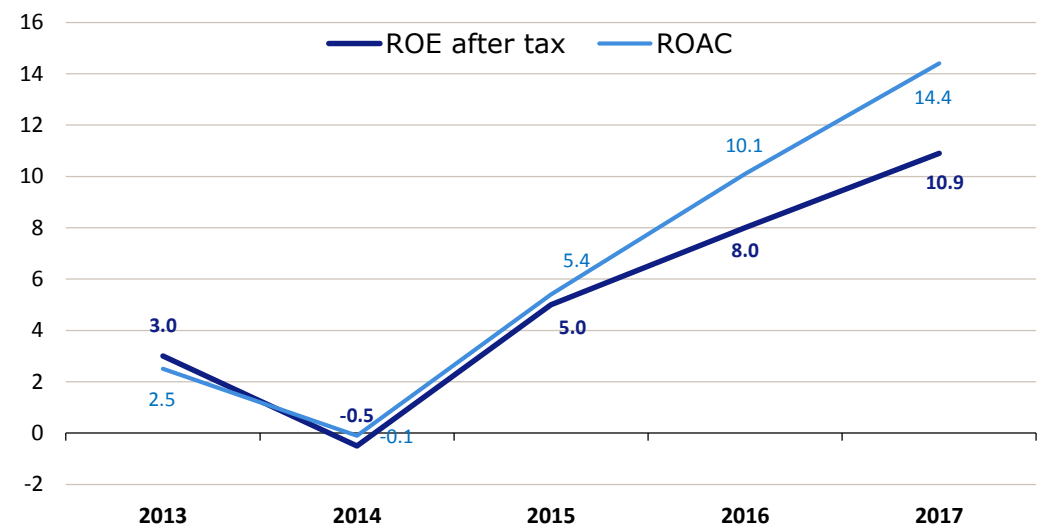
## Highlights of 2017

- Record year with business profit of DKK 8.6bn after a DKK 1bn one-off provision for IFRS 9 for the mortgage book
  - Results supported by the mild economic climate and high investment portfolio income
- Mortgage lending volumes grew 2.8% driven by Totalkredit Partners and Wholesale. The strong distribution power of partner banks a major driver for mortgage growth in a competitive market
- Satisfactory inflow of full-service bank customers
  - Bank lending up by 1% for the year in a weak market – up 7% including secured homeowner loans
  - Deposits from private customers up 6%
- Costs reduced while we continued investing in IT, digitisation and compliance
- Customer loyalty programme KundeKroner launched, extended and prolonged sharpening our competitive edge
- 31% growth in AuM supported by Nykredit being named Best Private Bank in Denmark by The Banker
- Credit quality remains strong reflecting the benign business cycle and strong property market

## Group operational cost:income ratio



## ROE and ROAC after tax<sup>1</sup>, %



<sup>1</sup> 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.

Source: Nykredit Group FY 2017 report

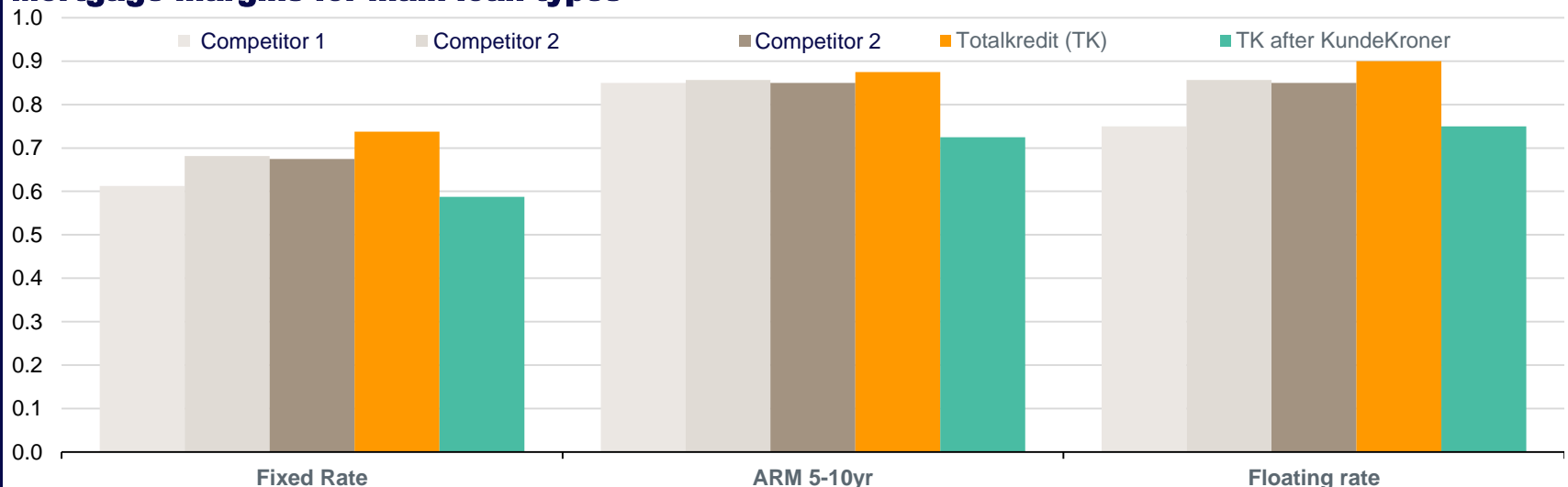
# Nykredit has secured capital flexibility

## Pension funds take 17% stake in Nykredit

- Forenet Kredit has sold 10.9% of the shares in Nykredit A/S for DKK 7.5bn to five pension funds
  - Nykredit's bank partners maintains their 2.25% ownership via PRAS A/S
  - Industriens Fond and Østifterne f.m.b.a. have sold a 6% stake to the pension funds and now owns 1.95% combined
  - The pension funds now own 16.9% of Nykredit
- The pension funds have undertaken to contribute up to DKK 7.5bn of capital to Nykredit in future, should the need arise
- Nykredit will pay DKK 4bn in dividends that will contribute to Forenet Kredit's building of a DKK 10bn capital buffer
- The solution gives Nykredit needed capital flexibility
  - CET1 level currently in excess of capital target as we maintain a buffer for Basel IV implementation
- Forenet Kredit is now a cash rich majority shareholder that can support Nykredit and its KundeKroner-concept

## KundeKroner enhances Nykredit's competitive position

### Mortgage margins for main loan types<sup>1</sup>



<sup>1</sup> Mortgage margins for owner-occupied dwellings by product type, 0–80% LTV, Loans with repayments.

KundeKroner of 0.15% p.a. has been decided for 2018 and 2019, but no decision has been made for subsequent periods.

# Business is growing but loan margins remain low

## Business trends

- Loan growth in Totalkredit (up DKK 29bn / +6%) reflecting a stronger housing market
- Increased mortgage lending to Wholesale clients (up DKK 9bn / +5%) as businesses finance investments
- Our mortgage lending grew in all regions of Denmark: We keep lending nationwide while 2/3 of mortgage loan growth originates from the capital region and Eastern Jutland
- Strong commitment from partner banks reflected in increased lending in Totalkredit, joint IT investments and a growing secured homeowner loan business
- Bank lending increased 1% or 7% including secured homeowner loans
  - Margin pressure continued in a market with low loan demand
- Assets under management grew 31% supported by strong investment performance
- Private Banking concepts saw a satisfactory development in business volume and results
- Nykredit's market position has been strengthened in 2017

# More normalised profits expected for 2018

## Guidance

- Profits for 2017 helped by strong tailwind as several volatile factors all contributed positively at the same time
- For 2018 credit losses are expected to remain low...
- ...but write backs, value adjustments of derivatives and investment portfolio income may not deliver the same extent of tailwind as in 2017
- Guidance for profit before tax 2018 DKK 6.5 to 7.5bn

## Dividends

- The Board of Directors recommends a dividend for 2017 of DKK 4bn equal to a pay out ratio of 50%
- Dividends underpin Forenet Kredit's ability to fund KundeKroner and thus Nykredit's competitiveness

# Income growth and cost restraint delivers strong business results

## Business results

- Profit after tax of DKK 8.0bn delivering an ROE of 10.9% after tax and a ROAC of 14.4%<sup>1</sup>
- 4% growth in income with improvements across all business units
  - NII up 3%, NFI up 10% and Wealth Management income up 18%
- Operating costs declined 4% resulting in a Cost:Income ratio of 36.2% for the year
- Impairment charges showed a loss of DKK 0.4bn including a one-off IFRS 9 implementation charge of DKK 1.0bn
- Several large one-off items affecting the result but net effect is broadly neutral
- Business profit of DKK 8.6bn - up 15% compared to 2016
  - In line with guidance when excluding the IFRS 9 charge of DKK 1bn

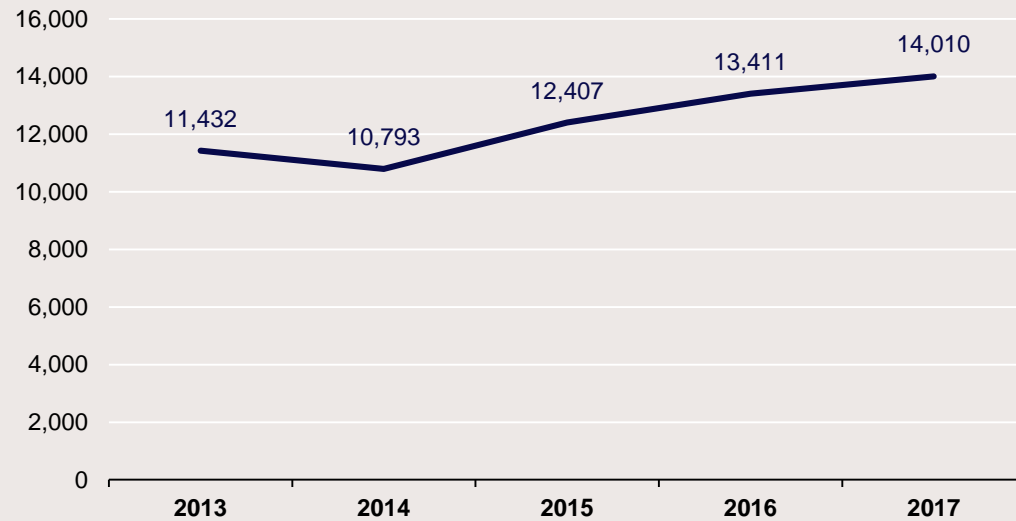
DKKmn	FY 2016	FY 2017	Index
<b>Income</b>	<b>13,411</b>	<b>14,010</b>	<b>104</b>
Costs	5,285	5,067	96
<b>Business profit before impairment charges</b>	<b>8,126</b>	<b>8,944</b>	<b>110</b>
Impairment charges	680	379	56
- of which IFRS 9	-	1,039	-
<b>Business profit</b>	<b>7,446</b>	<b>8,564</b>	<b>115</b>
Legacy derivatives	-763	1,517	-
<b>Profit before tax</b>	<b>6,683</b>	<b>10,081</b>	<b>151</b>
Tax	1,377	2,077	151
<b>Profit</b>	<b>5,306</b>	<b>8,004</b>	<b>151</b>

<sup>1</sup> Return On Allocated Capital. Based on a CET1 capital of 16% of REA

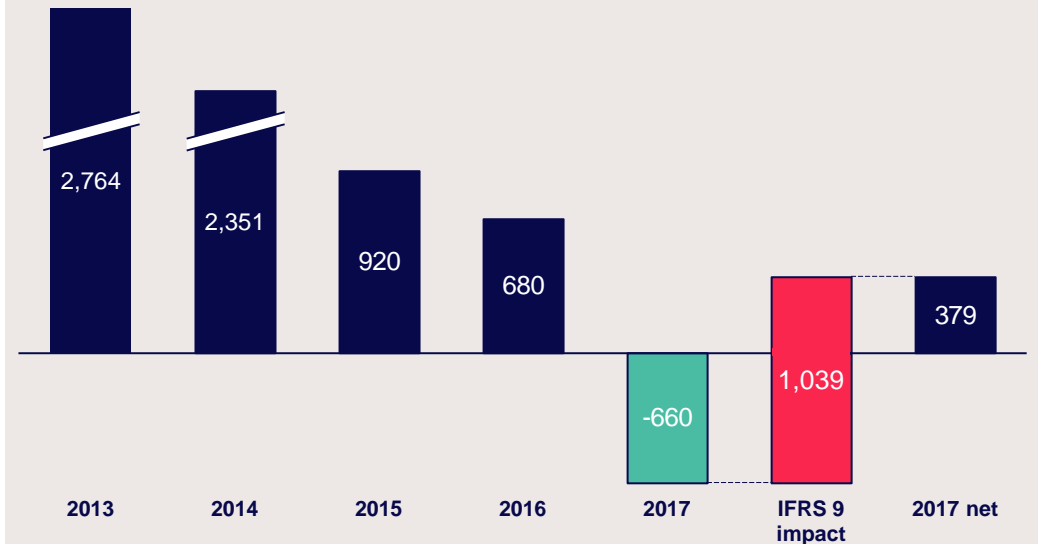


# Costs declining and impairments charges driven by IFRS 9

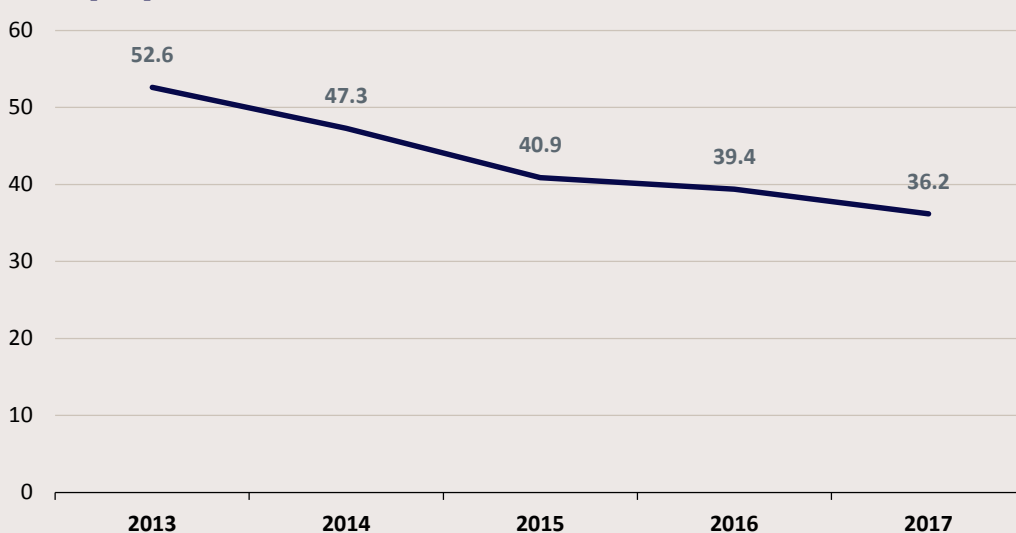
**Income, DKKm**



**Impairment charges, DKKm**

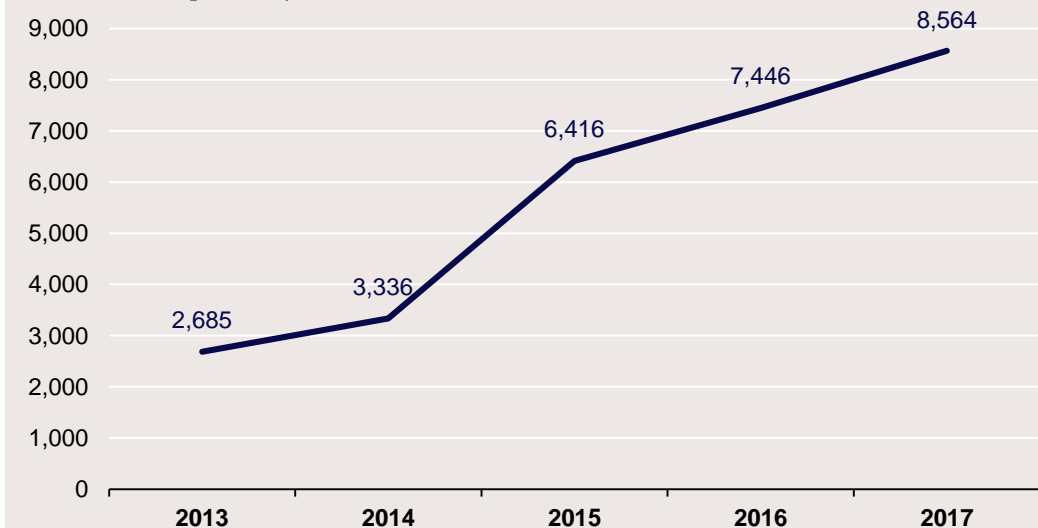


**Group operational cost:income ratio**



Source: Nykredit Group FY 2017 report

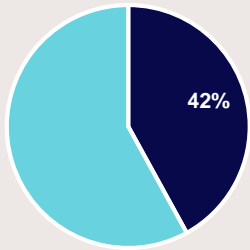
**Business profit, DKKm**



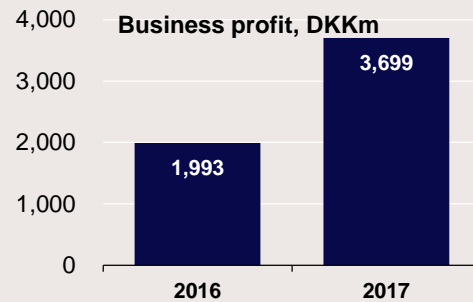
# Strong result in Retail and Wholesale business units

## Retail

Share of Group business profit



Business profit, DKKm

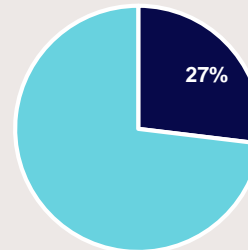


- Income up by 5% compared to 2016
- Satisfactory inflow of full service customers
- Bank lending up 7% driven by business customers, mortgage lending down 3% driven by private customers
- Credit quality improving by virtue of a strong housing market and a benign macro economic climate

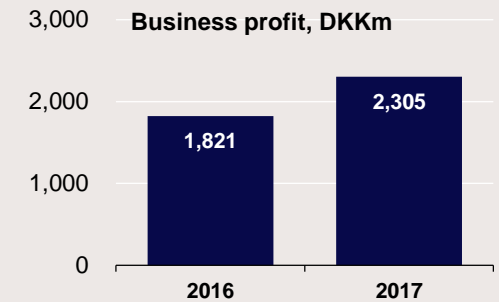
Retail (Personal and Business), DKKm	FY-2016	FY-2017	Index
Mortgage lending	420,527	408,449	97
Bank lending	28,347	30,241	107
Secured home loans	2,824	5,548	196
Deposits	43,037	46,646	108

## Wholesale

Share of Group business profit



Business profit, DKKm



- Income up by 16% compared to 2016
- Good demand for new mortgage financing (up DKK 9bn), while bank lending declined DKK 2bn due to redemptions and customer's strong liquidity positions year-end
- Credit quality improving from already strong levels

Wholesale (CIB and Markets), DKKm	FY-2016	FY-2017	Index
Mortgage lending	176,405	185,734	105
Bank lending	21,554	19,672	91
Secured home loans	-	-	-
Deposits	12,207	14,164	116

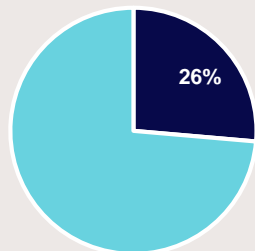
Source: Nykredit Group FY 2017 report



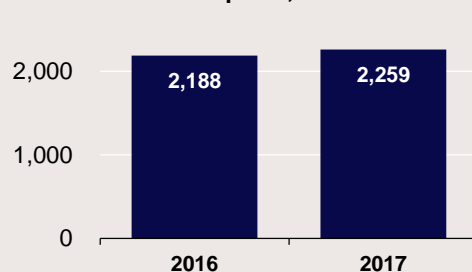
# Growth in Totalkredit and Wealth Management business units

## Totalkredit Partners

Share of group business profit



Business profit, DKKm

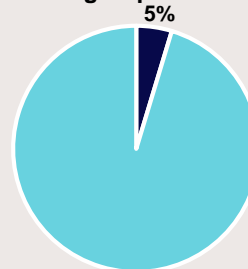


- Income up by 7% compared to 2016 due to higher volumes and higher margins
- Total mortgage loan portfolio grew 6% or DKK 29bn of which secured home loans contributed 5.1bn
- Credit quality remains strong reflecting Danish household finances and a strong housing market

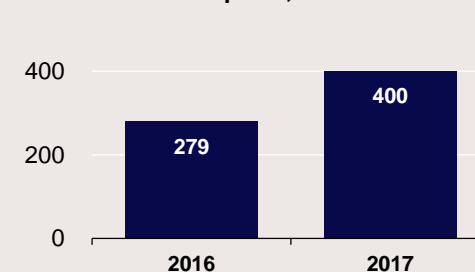
Totalkredit Partners, DKKm	FY-2016	FY-2017	Index
Mortgage lending	498,002	521,874	105
Bank lending	-	-	
Secured home loans	5,765	10,923	189
Deposits	-	-	

## Wealth Management

Share of group business profit



Business profit, DKKm



- Income up by 24% compared to 2016
- AuM grew by DKK 42bn (+31%). Inflow of new funds supported by top ranking of Nykredit Invest mutual funds
- Satisfactory inflow of new customers to Private Banking Elite
- Inflow of Private Banking customers reflected in AuM, lending (+35%) and deposits (+41%)

Wealth Management, DKKm	FY-2016	FY-2017	Index
Mortgage lending	5,268	6,956	132
Bank lending	2,353	2,984	127
Secured home loans	344	839	244
Deposits	9,522	13,464	141
Assets under Administration	786,549	806,562	103
Assets under Management	136,515	178,906	131

Source: Nykredit Group FY 2017 report

# Private banking business is showing good progress



- Private Banking for customers with more than DKK 2m to invest
- Full service customers exhibits high customer satisfaction...
- ...and it has been increasing during 2017



- Private Banking for customers with more than DKK 7m to invest
- Very high customer satisfaction

- Satisfactory inflow of 1,000+ Private Banking customers per quarter
- Strong investment performance and mutual fund offering support our Private Banking business
- Assets under Management increased substantially during 2017
- We are investing, building markets share and see our efforts paying off



Source: Nykredit Group FY 2017 report

# Q4 income in line with Q3 excluding trading and investment portfolio

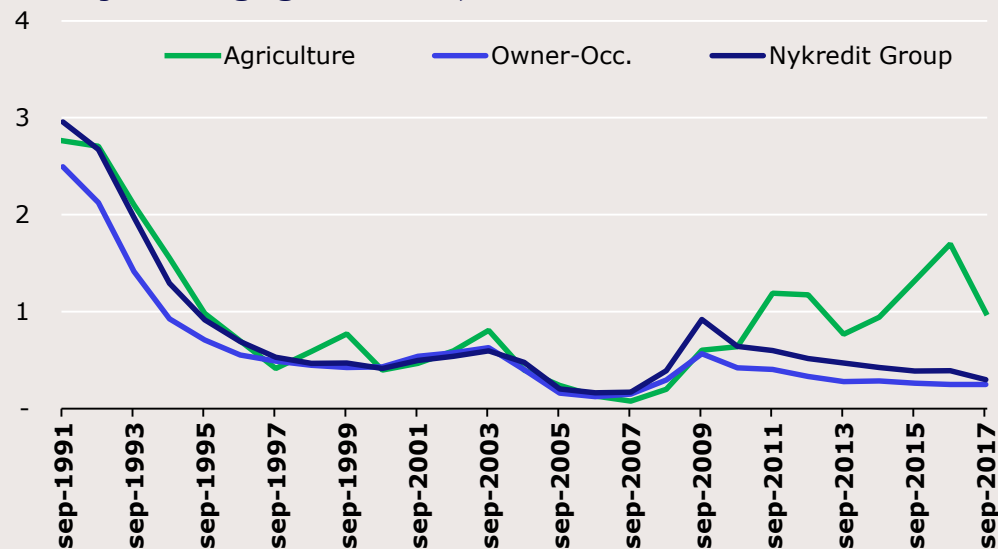
## Business results

- Income from customer business in Q4 broadly in line with Q3
  - NII down 2% - including DKK 67m KundeKroner deduction – otherwise slightly up
  - Fees and commissions increased 4%
- Decline in income almost entirely driven by the Trading, investment portfolio and other income
- Costs increases in Q4 driven by IPO-costs, investments in compliance and increased marketing
- Ordinary impairment charges basically unchanged, but one-off IFRS 9 impact on mortgage lending reduces profits by DKK 1.0bn
- Business profit of DKK 0.6bn for Q4

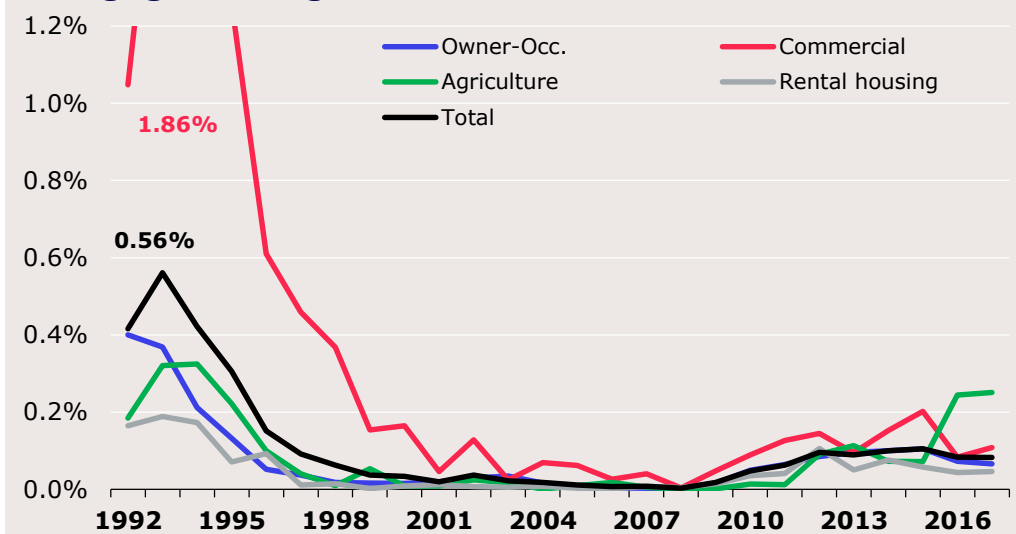
DKKm	Q3/2017	Q4/2017	Index
<b>Income</b>	<b>3,628</b>	<b>2,961</b>	<b>82</b>
- Net interest Income	2,276	2,232	98
- Net fee income	640	664	104
- Wealth management income	356	355	-
- Net interest from capitalisation	-70	-87	124
- Trading, investment portfolio and other income	425	-202	-
Costs	1,216	1,477	121
<b>Business profit before impairment charges</b>	<b>2,413</b>	<b>1,485</b>	<b>62</b>
Impairment charges	-102	930	-
- of which IFRS 9	-	1,039	-
<b>Business profit</b>	<b>2,515</b>	<b>555</b>	<b>22</b>
Legacy derivatives	122	29	24
Profit before tax	2,637	584	22
Tax	509	135	27
<b>Profit</b>	<b>2,128</b>	<b>449</b>	<b>21</b>

# Credit quality remains strong and improving

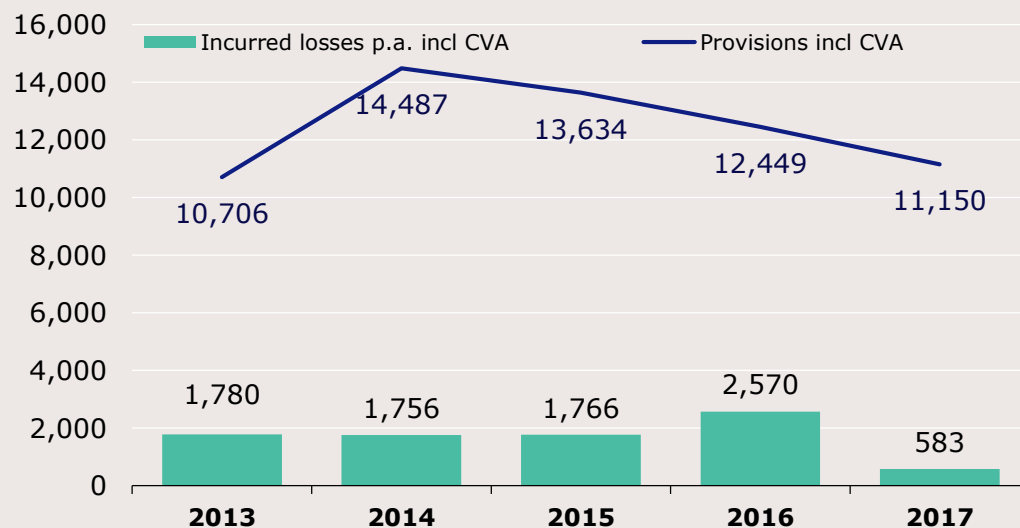
## 75 days mortgage arrears, %



## Mortgage lending: Incurred losses as a % of debt



## Total provisions and incurred losses, DKKm



## Credit metrics

Per cent	2013	2014	2015	2016	2017
Impairment losses					
- Mortgage lending	0.21	0.19	0.09	0.07	0.04
- Bank lending	0.29	0.22	-0.12	-0.16	-0.19
Nykredit Group					
- Non-performing loans	2.47	2.47	2.56	2.47	2.03%
- Cover ratio*	29.0	31.5	28.7	28.9	32.4%
Acquired properties, stock	322	238	159	114	63

\* Reserves for impaired loans / impaired loans

Source: Nykredit Group FY 2017 report and Fact Book

# Strong capital generation in 2017 paves the way for dividends

## Capital

- REA up 1% as lower mortgage LTVs off-set higher loan volumes
- CET1 ratio amounts to 20.6% at year end after dividends
  - Proposed dividends of DKK 4bn
  - Dividends support both KundeKroner and Forenet Kredit's build-up of capital buffers
- Impact of Basel IV still estimated to approx. DKK 100bn higher REA
  - CET1 ratio in excess of target as we maintain buffer for Basel IV
- No current plans to issue AT1 or Tier 2 capital

## Funding plans

- We expect to issue DKK 0-5bn of Senior Resolution Notes
- Covered bonds issued daily and in quarterly auctions
- Quarterly refinancing auction of covered bonds running this week with sale of DKK 44bn worth of bonds

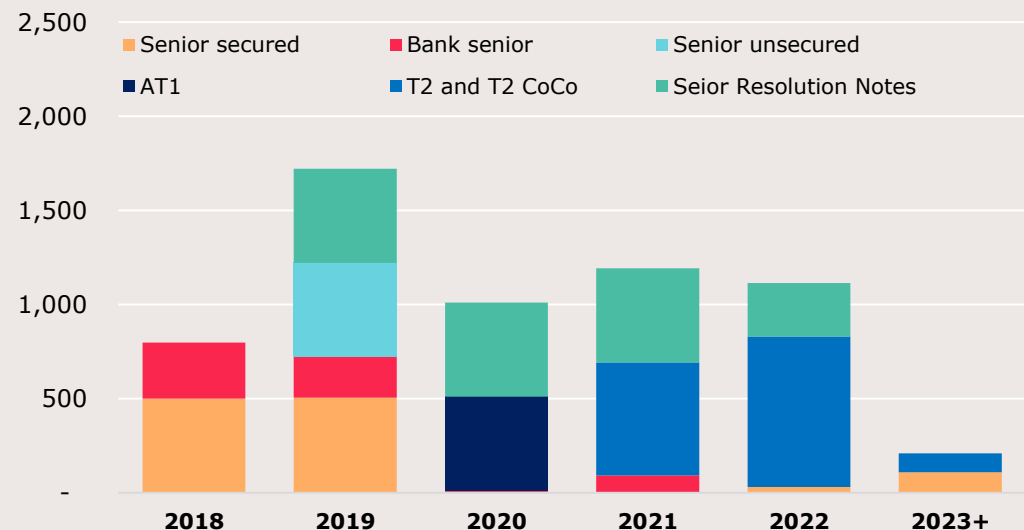
Source: Nykredit Group FY 2017 report.

Note: Maturity profile excludes covered bonds.

## Group facts

	Q3/2017	End 2017
Risk Exposure Amount (REA)	332.4bn	335.7bn
CET1	71.3bn	69.4bn
CET1 ratio	21.4%	20.6%
Total capital ratio	24.4%	23.9%
Leverage ratio	5.3%	4.6%
Pillar I	8.0%	8.0%
Pillar II	2.2%	2.2%
Solvency requirements	10.2%	10.2%

## Nykredit Group maturity profile, EURm



# Concluding remarks

## A record year and a stronger Nykredit

- A record year for Nykredit
- Results reflect strong tailwind as several volatile factors all contributed positively at the same time
- Large positive one-offs largely neutralized by negative IFRS 9 charges for mortgage loan portfolio
- Nykredit has secured capital flexibility, laid a strong foundation for KundeKroner and improved competitiveness
- Cost reduced by 4% compared to last year and our focus on cost restraint continues

## 2018 guidance

- Several of the special factors impacting the 2017 result positively are not expected to be repeated in 2018
- Guidance for business result therefore DKK 6.5 to 7.5bn





# Nykredit Group financial ratios

	2013	2014	2015	2016	2017
<b>Net interest income</b>					
- as % of lending and deposits	0.62	0.69	0.69	0.71	0.70
<b>Profit (loss) for the period</b>					
- as % pa of average equity	3.0	-0.5	5.0	8.0	10.9%
<b>Business profit for the period</b>					
- as % pa of average equity	4.6	5.6	10.3	11.3	11.6%
<b>Total assets, DKKbn</b>	1,417.4	1,457.3	1,383.8	1,400.6	1,426.7
<b>Risk Exposure Amount (REA), DKKbn</b>	346.3	358.7	310.3	348.4	335.7
<b>Leverage ratio, %</b>	-	-	-	5.0	4.6%
<b>S&amp;P RAC ratio (June 2017), %</b>					12.6
- Nykredit Realkredit Group					
<b>Distance to MDA, not fully loaded, DKKbn</b>	-	-	-	-	41.9
<b>Distance to MDA, fully loaded, DKKbn</b>	-	-	-	-	33.4
<b>Available Distributable Items (ADI), DKKbn</b>	-	-	-	-	29.0
<b>Total capital ratio, %</b>	18.9	17.2	20.7	21.9	23.9
<b>CET1 capital ratio, %</b>	15.8	15.4	19.4	18.8	20.6

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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- |                             |                           |
|-----------------------------|---------------------------|
| ■ General information       | ■ Bond data               |
| ■ Press releases            | ■ Prospectuses            |
| ■ Financial and CSR reports | ■ Publications on markets |
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