

Nykredit Group

FY 2018 Earnings call

5 February 2019
Copenhagen

Numbers relate to
Nykredit Group



Agenda

- **Highlights and strategy comments**

CEO Michael Rasmussen

- **Financial performance, credit and funding plans**

CFO David Hellemann

- **Q&A**



Highlights of a satisfactory 2018

▶ 2018 delivered a satisfactory business result of DKK 6.75bn

▶ Future business structure fully implemented with strong results

▶ Business growth in both mortgage lending, banking and Wealth Management

▶ NII is increasing in both mortgage lending and banking

▶ Lower costs despite volume growth and increasing compliance costs

▶ Credit quality remains strong with impairments primarily due to a few single exposures

▶ Headwind from financial markets in Q3 and Q4 driving business profit lower

▶ Proposed dividends of DKK 2.8bn equal to a pay-out ratio of 50%

Strategy update

- 2018 will stand out as the year where our the future business structure materialized
- Recent years' continued focus on profitability, ownership structure and capital flexibility have crystalized in our structure
- The model will define Nykredit going forward and the core is “Giving back to the customers”
- We paid out DKK 1.1bn to home-owners, farmers and commercial clients in customer benefits 2018
- Introduction of two new customers benefit programmes in 2018:
 - Erhvervskroner to corporate clients with mortgage loans
 - MineMål to banking customers



Business developments

New customer benefit programmes

- ErhvervsKroner
 - Discounts offered to business mortgage customers
 - First discounts were awarded at end-September 2018
 - A 0.15% discount is guaranteed up to and including 2019
- MineMål
 - A new customer benefit programme for banking customers
 - A dynamic programme designed to meet customer wishes
 - DKK 250 every quarter to bank customers
 - Developed in co-creation with customers - more than 2,000 customers have signed up to participate in the process

Shared Valuation

- Property appraisal and valuation is key to mortgage lending and risk management
- New joint Shared Valuation set-up across Nykredit Group and all partner banks
- Will deliver uniform appraisals and better valuation models
- Nykredit's head count will increase, but no net effect on P/L

IT transition

- Nykredit has successfully completed transition to the IT platform of BEC



Strong position in the market

- Focus on being best at serving customers is working
- Improved image and increased customer satisfaction
- Reflected in inflow of full-service customers
- A strong position for a market with increased volatility

Image and customer satisfaction

Nykredit's
image

Net
Promoter
Score

Wholesale
customer
satisfaction

Retail
customer
satisfaction



Profit guidance

- Guidance for profit before tax for 2019 DKK 6.5 to 7.0bn
- The guidance reflects
 - Expected continued growth in our business
 - A move towards normalization of credit losses
 - Slightly increasing costs as a result of Shared Valuation
 - Expected slightly higher income from our investment portfolio than in 2018
- The most significant risks relate to:
 - Impairments
 - The investment portfolio income and derivatives as a result of, among other things, interest rate movements
- Pay out ratio of 50%
 - Proposed dividends of DKK 2.8bn



Financial performance, credit and funding plans

CFO David Hellemann

Underlying business is doing well

2018 overview

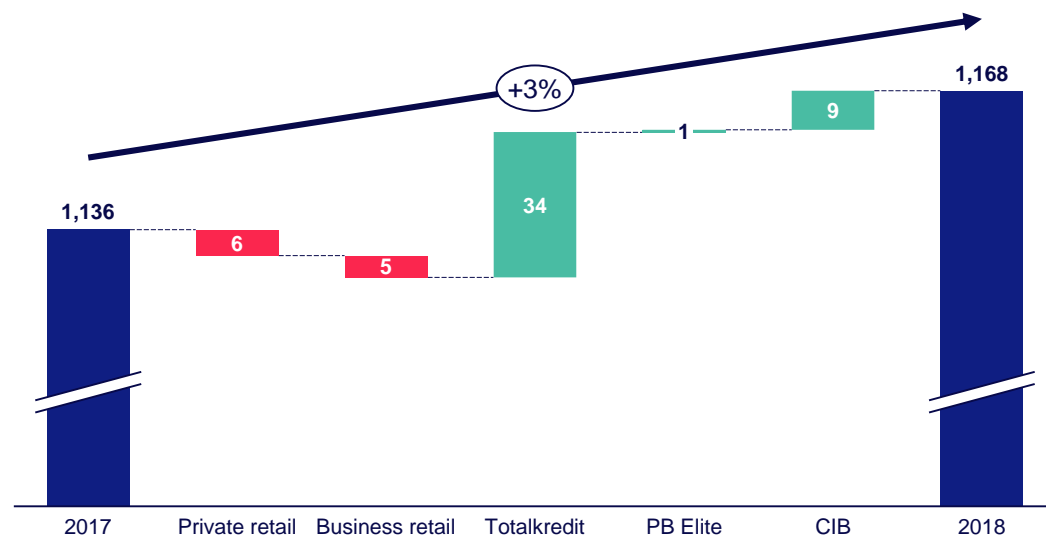
- Profit after tax of DKK 5,740bn delivering a ROE of 7.5% after tax and a ROAC of 10.2%
- Over all we are satisfied with the development in our business
- Total income from interest and wealth management are broadly in line with last year
 - NII up by DKK 152m or 2% excluding customer benefits programmes
 - NFI down by DKK 519m or 21% driven by market headwind and lower mortgage activity
 - Wealth Management's AuM up 18%, but income down DKK 41m or 3% due to lower performance fees and lower activity in Nykredit Markets
- Operating costs are reduced by DKK 177m or 3%

DKKm	2017	2018	Index
Income	14,010	12,023	86
- Net interest Income	9,006	8,984	100
- <i>Net interest Income excl. customer benefit programmes</i>	<i>9,074</i>	<i>9,225</i>	<i>102</i>
- Net fee income	2,470	1,951	79
- Wealth management income	1,402	1,361	97
- Net interest from capitalisation	-360	-356	99
- Trading, investment portfolio and other income	1,492	85	6
Costs	5,067	4,890	97
Business profit before impairment charges	8,944	7,133	80
Impairment charges	379	380	100
Business profit	8,564	6,753	80
Legacy derivatives	1,517	280	18
Profit before tax	10,081	7,033	70
Tax	2,077	1,293	62
Profit	8,004	5,740	72

We see growth in our business and increasing NII

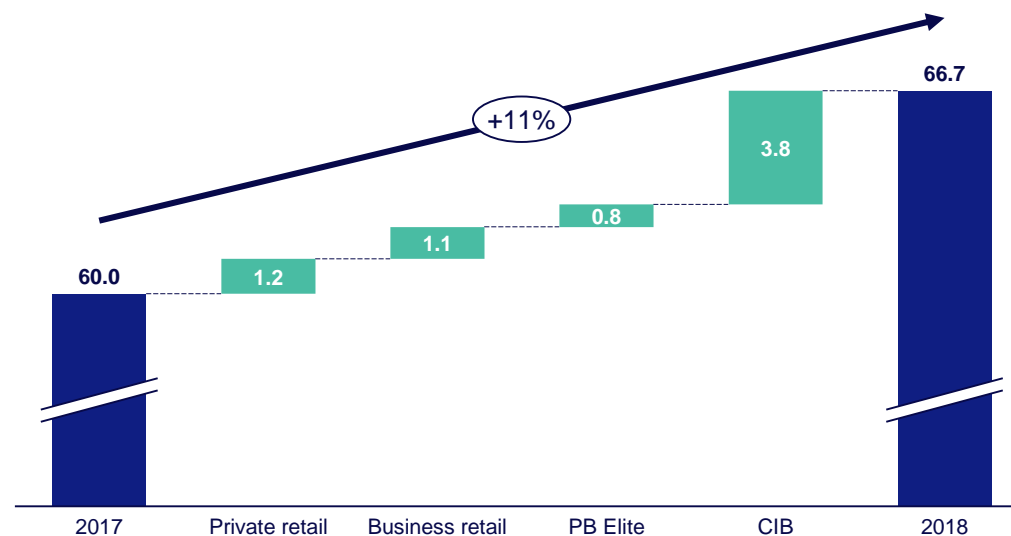
Mortgage lending up 3% driven by Totalkredit Partners

DKKbn



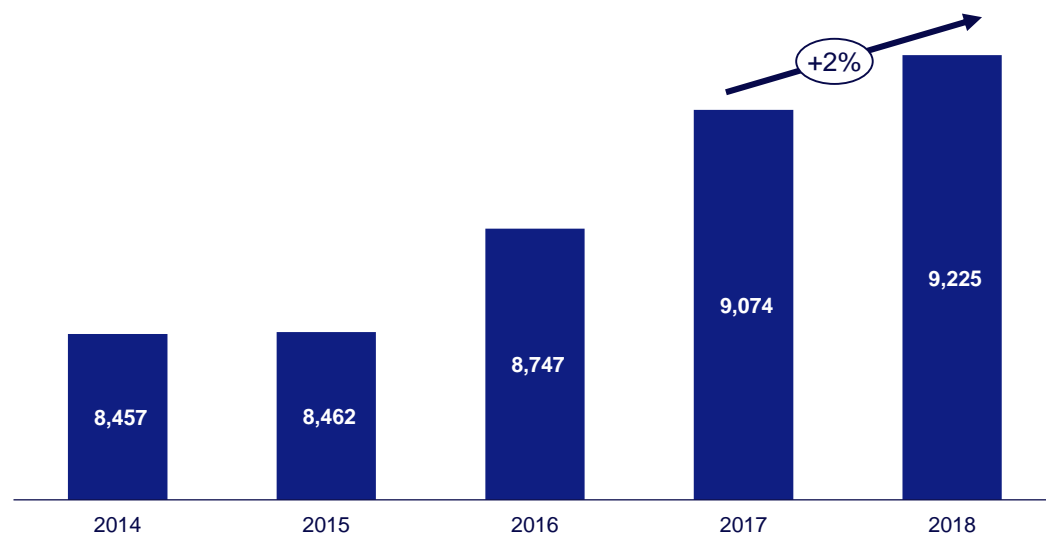
Bank lending incl. secured homeowner loans growing

DKKbn



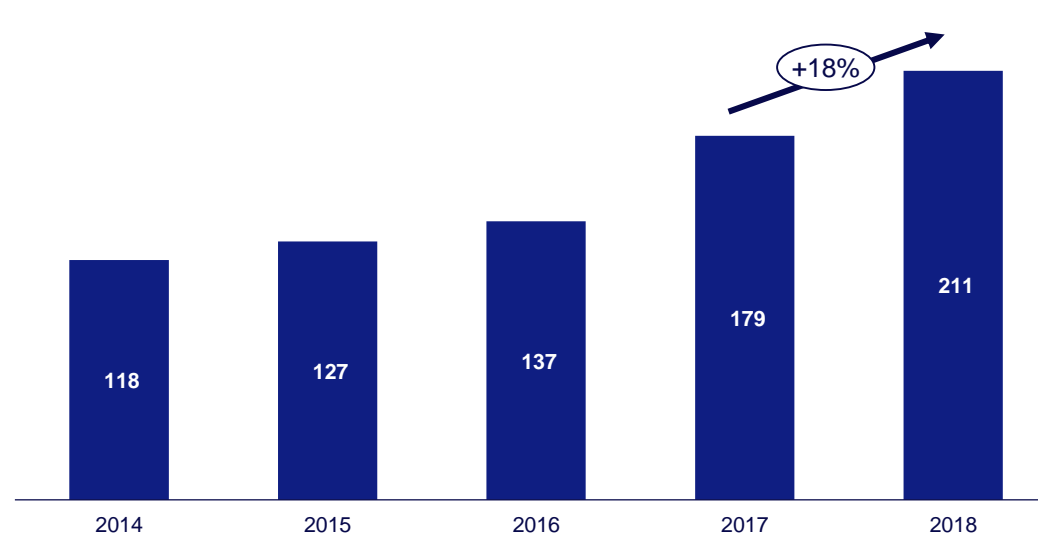
NII excluding customer benefit programmes, DKKm

DKKm



Assets under Management up by 18%

DKKbn

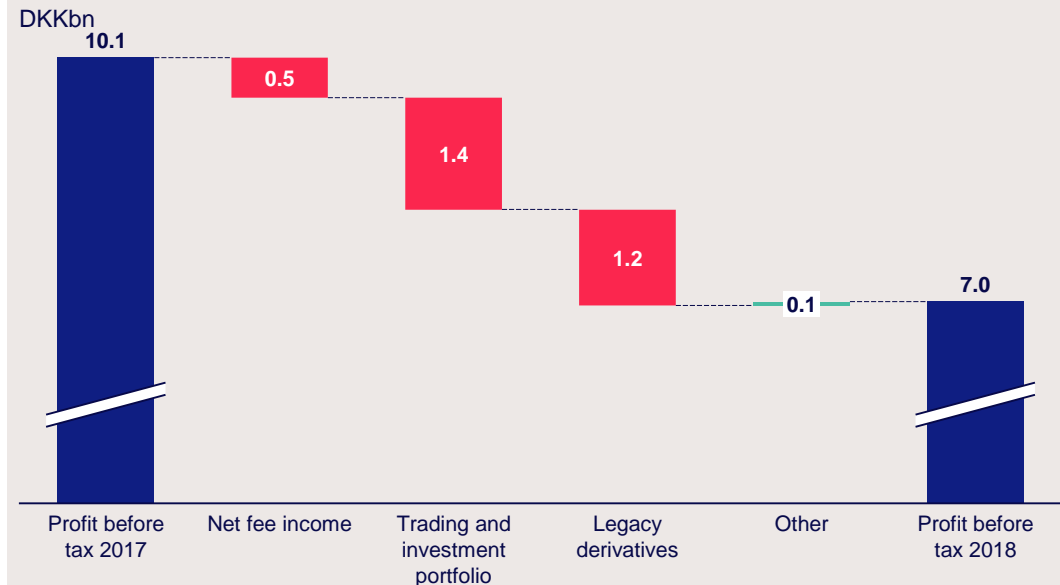


Profits impacted by market headwind

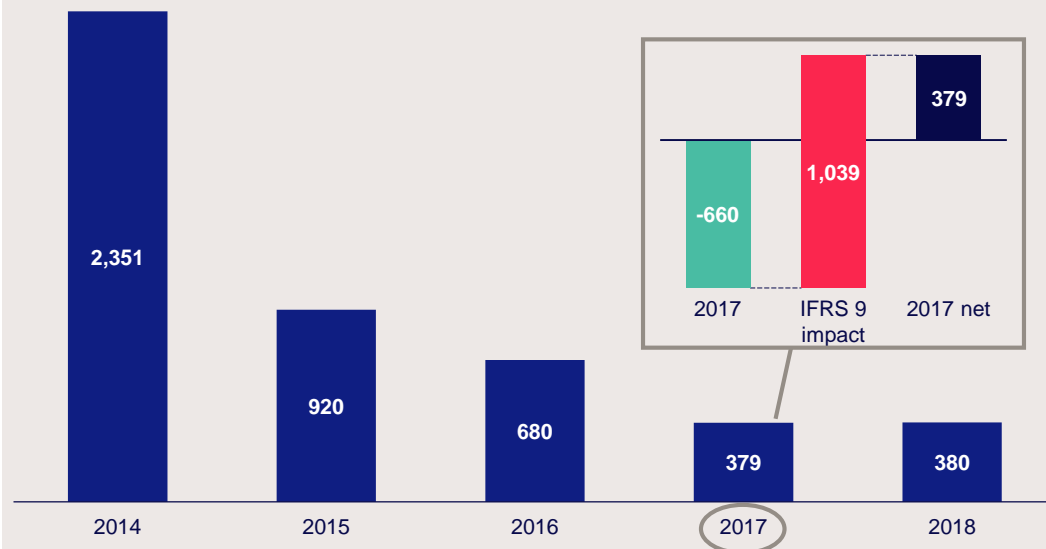
Highlights

- Profits before tax down by DKK 3bn due to market headwind:
 - Net fee income DKK 0.5bn lower driven by lower activity...
 - ...a move towards fixed rate mortgage loans and lower funding income
 - Trading and investment portfolio down by DKK 1.4bn driven by widening spreads and market turmoil
 - Legacy derivatives down by DKK 1.2bn driven by low interest rate
- Costs reduced by 3% despite investments in compliance and new IT platforms
- Credit costs moving towards normalisation
 - IFRS9 impact in 2017 overshadows the end of impairments reversals

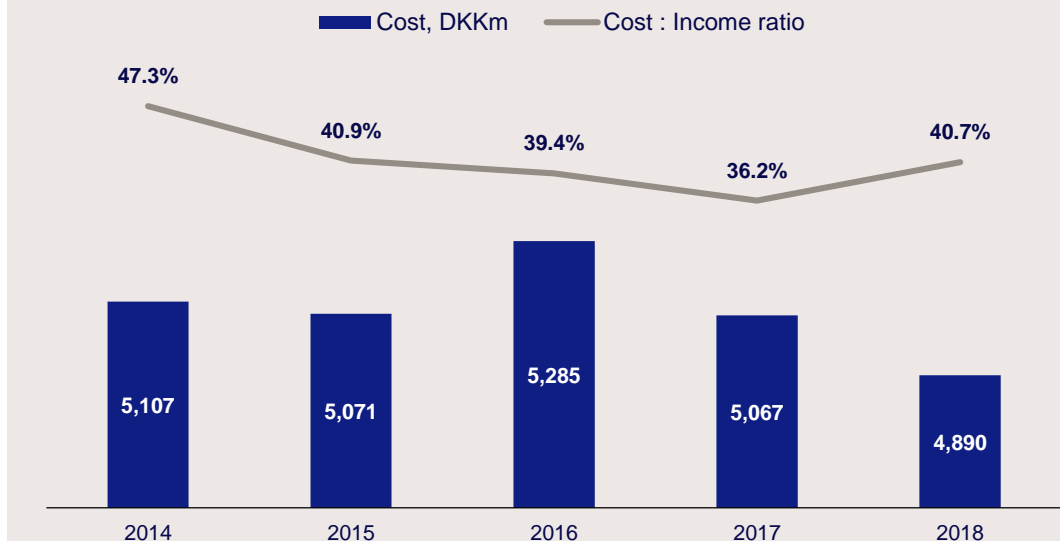
Trading, investment portfolio and fees impacted the most



Impairment charges, DKKm



Group operational costs and cost:income ratio

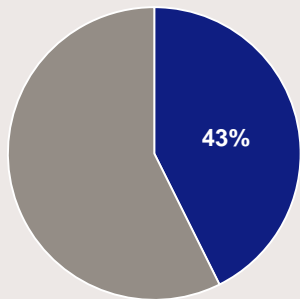


Bank lending up 7% in Retail and 19% in Wholesale business units

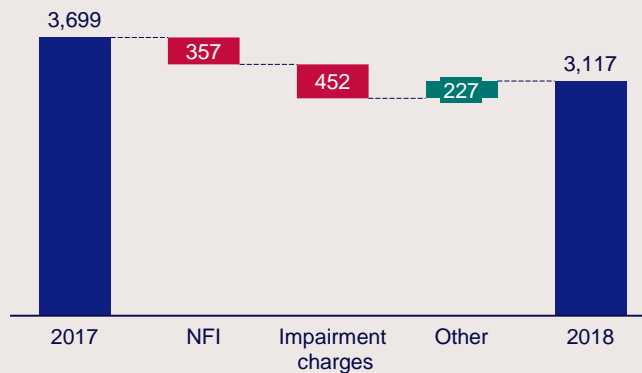
Retail

- Bank lending incl. secured homeowner loans up by 7% on customer inflow
 - Bank lending to private customers incl. secured home loans up 8%
 - Inflow of customers and 6% increase in bank lending to business customers
- Mortgage lending down 3% as home-owners with only mortgage loans leave
- Business profit of 3.1bn impacted by lower fee income and impairments
- Credit quality remains fundamentally strong – increase in impairment charges mainly reflects large reversals in 2017

Share of group business profit



Change in business profit, DKKm



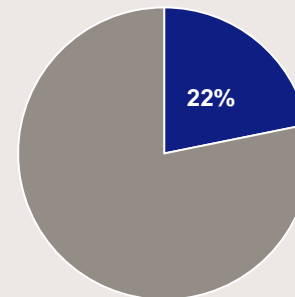
Retail (Personal and Business), DKKm

	End-2017	End-2018	Index
Mortgage lending	408,450	397,482	97
Bank lending	30,241	31,161	103
Secured homeowner loans	5,548	7,074	107
Deposits	46,646	49,387	105

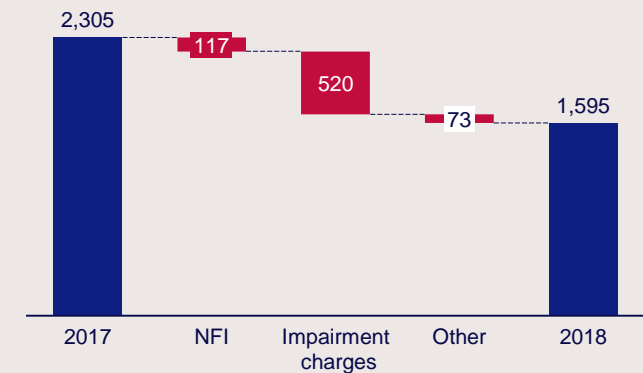
Wholesale

- Bank lending up by 19% while mortgage lending increased by 4%
- Interest, fees and Wealth management income in line with last year
- Lower trading and investment portfolio income drives total income 8% lower
- Business profit of 1.6bn driven lower by fewer impairment reversals and new impairment charges on a few large exposures in 2018
- Overall credit quality remains strong – increase in impairment charges mainly a result of large reversals in 2017

Share of group business profit



Change in business profit, DKKm



Wholesale (CIB and Markets), DKKm

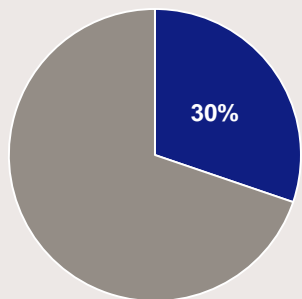
	End-2017	End-2018	Index
Mortgage lending	185,734	193,360	104
Bank lending	19,672	23,342	119
Deposits	14,164	11,708	83

Strong growth in Totalkredit Partners and Wealth Management

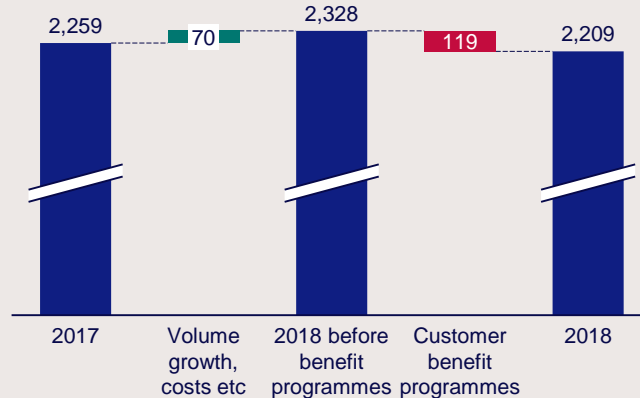
Totalkredit Partners

- Totalkredit sees consistently loan growth and high inflow of new customers
 - Loan growth of DKK 31.7bn or 6%
 - Supported by strong distribution power of partner banks and KundeKroner beginning to show effect
- Business profit of 2.2bn broadly in line with last year.
- Credit quality remains strong with continued low impairment charges

Share of group business profit



Change in business profit, DKKm



Totalkredit, DKKm

End-2017

End-2018

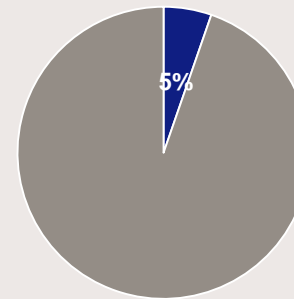
Index

	End-2017	End-2018	Index
Mortgage lending	519,818	551,454	106
Secured homeowner loans	10,923	11,005	101

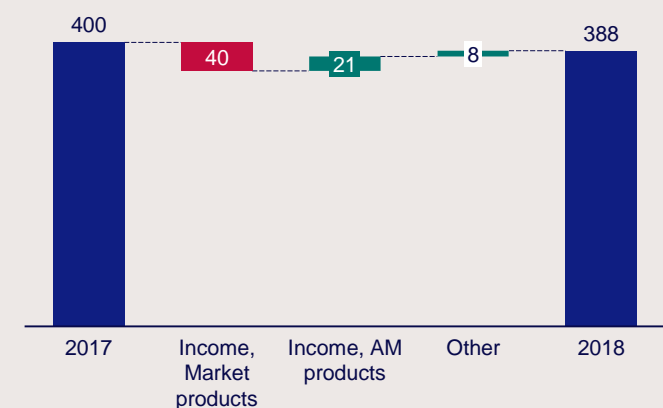
Wealth Management

- Assets under Management up DKK 32bn or 18% driven entirely by new funds
- Business result somewhat lower than last year due to lower fees reflecting market turmoil
- Business profit of 0.4bn broadly in line with last year
- Wealth Management reports 5% of Group business profits
 - Revenue generation of DKK 1bn - half is reported in the business units

Share of group business profit



Change in business profit, DKKm



Wealth Management, DKKm

End-2017

End-2018

Index

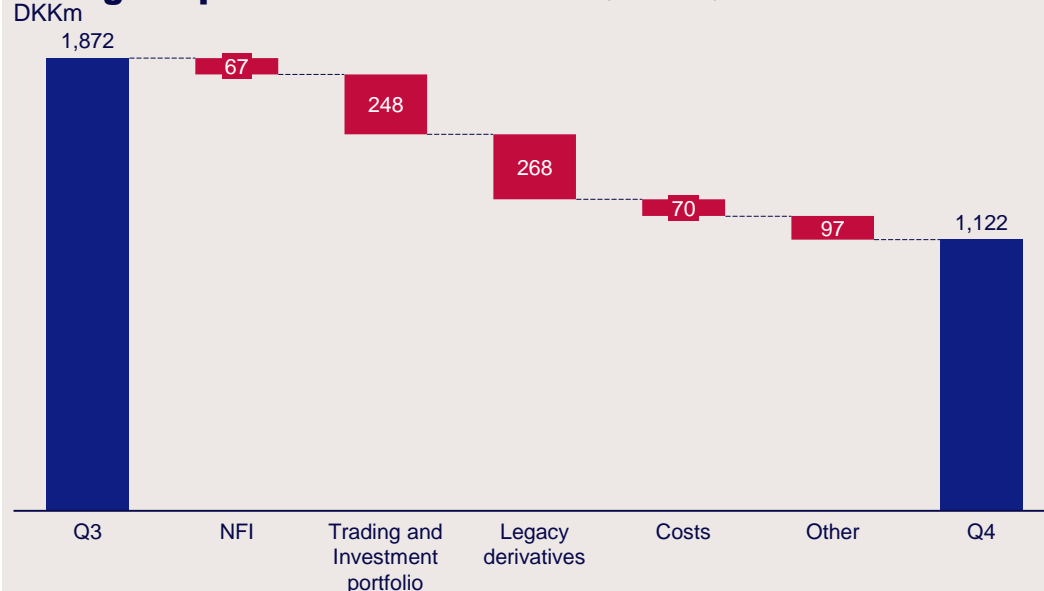
	End-2017	End-2018	Index
Lending	10,780	12,619	117
Deposits	13,464	12,090	90
Assets under Management	178,906	210,623	118
Assets under Administration	792,710	664,590	84

Source: Nykredit FY 2018 report

Q4 result impacted negatively by market headwind

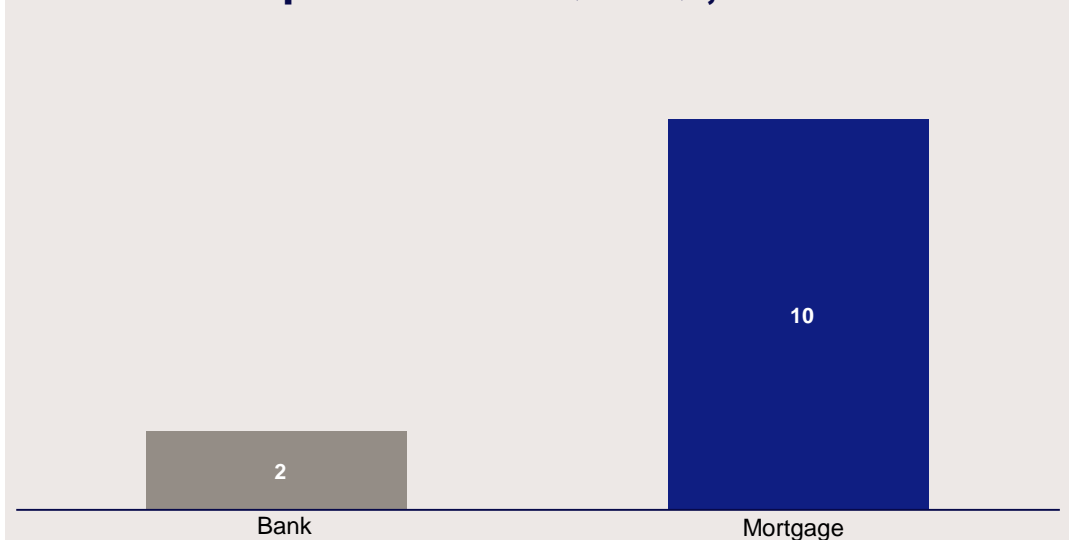
- Total income from interest, fees and wealth management declining by 3% in Q4 compared to Q3
 - NII broadly flat
 - Wealth Management income is down 5% and Net Fees 14% below Q3
 - Market headwind driver of drop in Trading, investment portfolio and other income of DKK 250m from Q3 to Q4
- Costs increase 6% in Q4 due to timing of project invoicing
- Increase in impairment charges due to a few large exposures in Nykredit Bank
- Business profit of DKK 1.2bn for Q4 compared to DKK 1.7bn for Q3
- Legacy derivatives drives profit before tax DKK 268m lower compared to Q3

Change in profit before tax from Q3 to Q4



DKKbn	Q3/2018	Q4/2018	Index
Income	3,019	2,667	88
- Net interest Income	2,273	2,258	99
- <i>Net interest Income excl. customer benefit programmes</i>	2,339	2,351	101
- Net fee income	496	429	86
- Wealth management income	355	336	95
- Net interest from capitalisation	-88	-92	-
- Trading, investment portfolio and other income	-16	-264	-
Costs	1,203	1,273	106
Business profit before impairment charges	1,816	1,394	77
Impairment charges	110	167	152
Business profit	1,706	1,225	72
Legacy derivatives	164	-104	-
Profit before tax	1,872	1,122	60
Tax	385	127	33
Profit	1,485	996	67

Growth in loan portfolios from Q3 to Q4, DKKbn

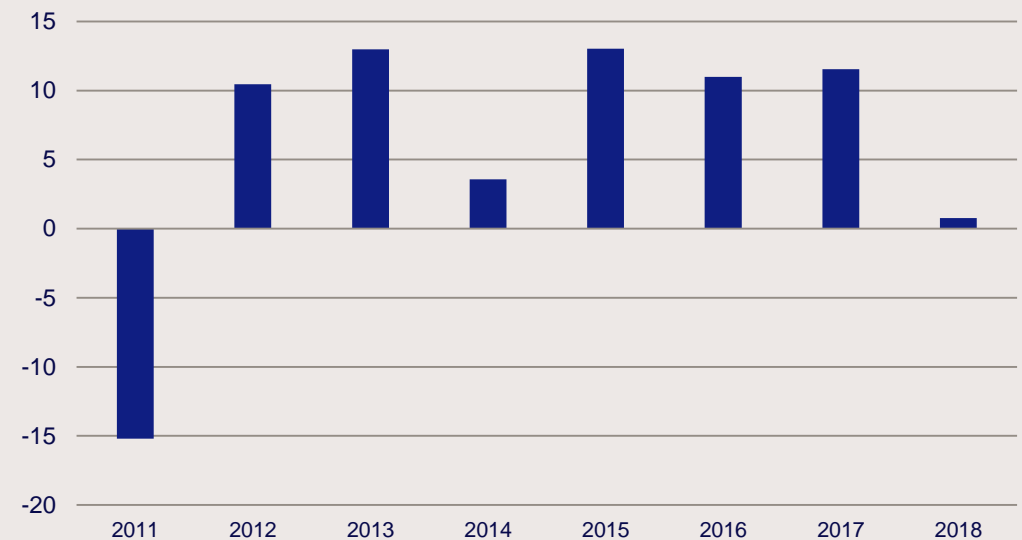


Housing market remains strong and supports credit quality

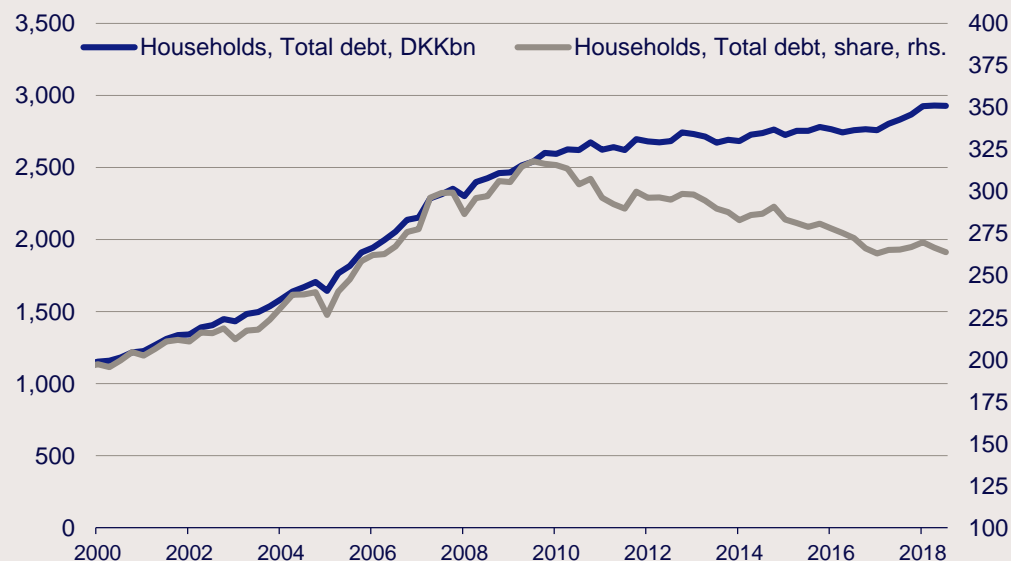
The market for owner-occupied dwellings remain strong

- Turnover remains strong, but is starting to decline
- Home prices increased in all regions during 2018
- House price inflation more muted than in previous years
- Deceleration in prices most pronounced for flats in Copenhagen
 - Macro prudential measures seem to work as intended
 - New supply coming to the market
 - Buyers are starting to consider the effect of new property tax regime
- Affordability remains good and households have consolidated since 2008

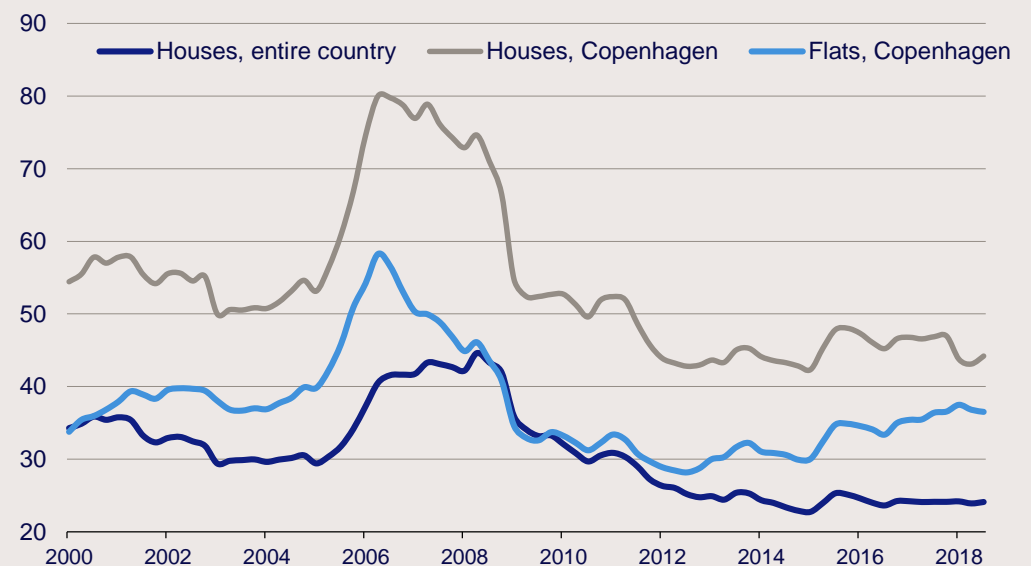
Annual increase in prices of flats in Copenhagen, %



Household debt to disposable income declining



Housing burden, % of disposable income

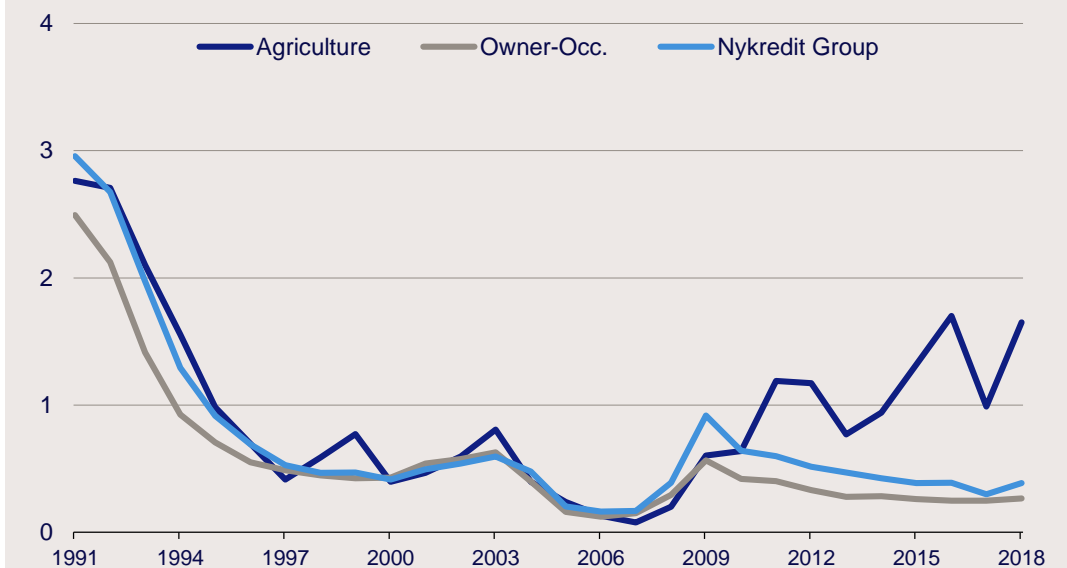


Overall credit quality remains strong

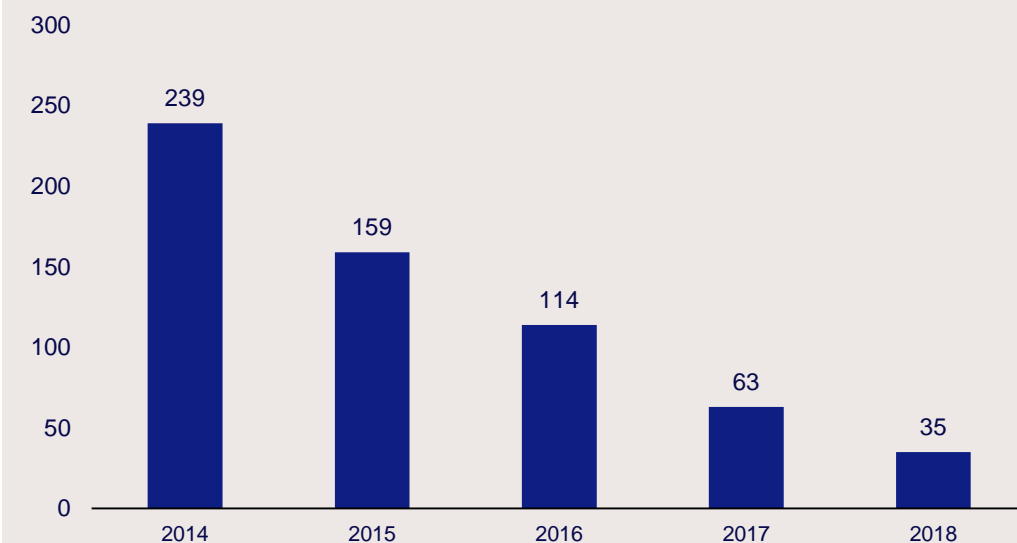
Credit highlights

- Overall credit quality remains strong as Danish economy is growing healthily and unemployment is low
- Agriculture is still challenged with elevated arrears ratios
 - Drought during the summer
- Increasing impairment charges are mainly driven by a few individual commercial exposures
- Nykredit has provisioned adequately for agriculture and saw reversals in Q4

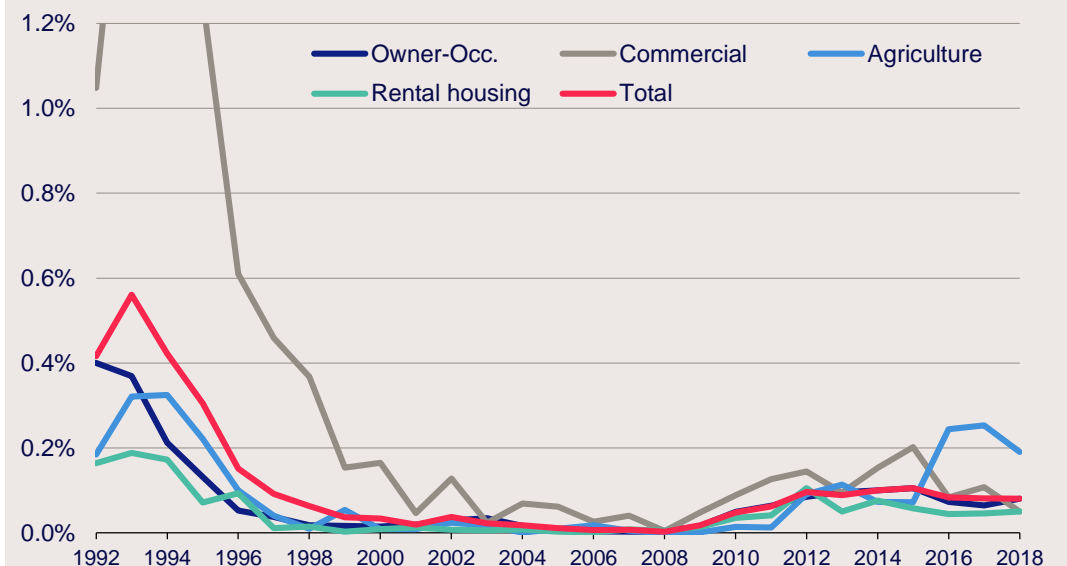
75-day mortgage arrears, %



Stock of repossessed properties



Mortgage lending: Write-offs as a % of debt



Strong CET1 ratio and issuance of Senior Non-Preferred debt

Capital development in 2018

- REA up 2% driven by market risk and operational risk
- Proposed dividend of DKK 2.8bn equal to 50% pay-out
- CET1 ratio amounts to 21%
- CET1 significantly above capital policy of 15.5 – 16.5% CET1
 - In line with target of maintaining buffer for Basel IV impact
 - Basel buffer amounts to approx. 450 bps. CET1 equal to estimated impact of Basel IV accord

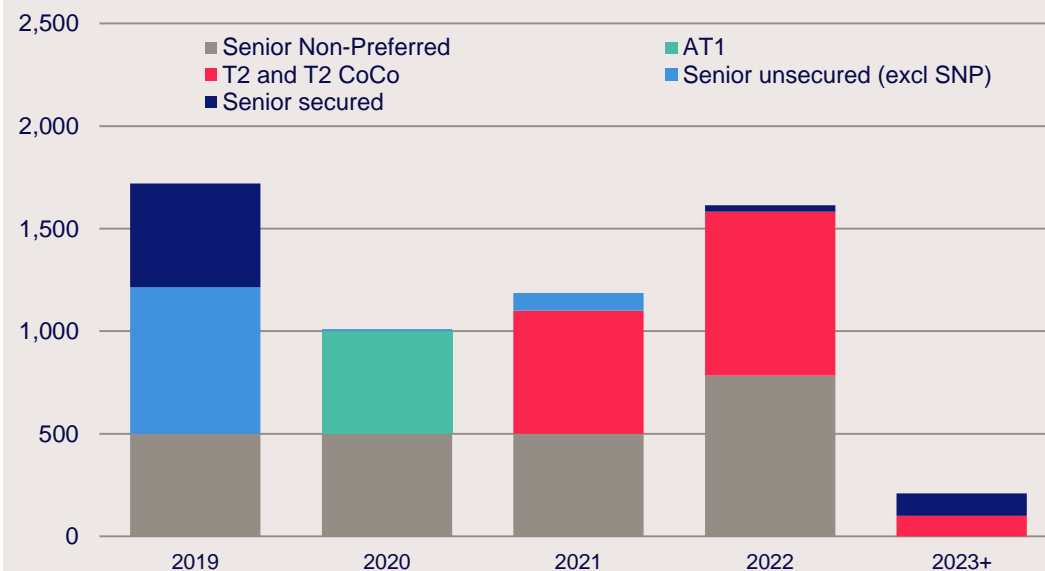
Funding plans

- Law implemented in 2018 requires Nykredit to increase the amount of bail-inable liabilities from currently DKK 100bn to 120-130bn by end-2021
- Part of the increase will be covered by refinancing senior debt types with Senior Non-Preferred debt
- Approx. DKK 13bn (EUR 1.7bn) of senior debt matures in 2019
- We expect to issue DKK 7-15bn of Senior Non-Preferred debt in 2019
- Quarterly refinancing auction of covered bonds running this week with sale of DKK 39bn worth of bonds

Group facts

Nykredit Group	End-2017	End-2018
Risk Exposure Amount (REA)	335.7bn	343.6bn
CET1	69.4bn	72.4bn
CET1 ratio	20.6%	21.0%
Total capital ratio	23.9%	23.5%
Leverage ratio	4.6%	4.8%
Pillar I	8.0	8.0
Pillar II	2.2	2.0
Solvency requirements	10.2	10.0

Nykredit Group maturity profile, EURm



Concluding remarks

A satisfactory 2018

- Profits for 2018 is satisfactory despite strong headwind in Q4 on financial markets
- Future business structure fully implemented with strong results
- Continuous inflow of customers and satisfactory volume growth in both mortgage lending, banking and Wealth Management
- NII growing in both mortgage lending and banking
- Costs declining
- Overall credit quality remains strong and loan loss provisions are expected to remain low

2019 guidance

- Guidance for profit before tax for 2019 DKK 6.5 to 7.0bn
- The most significant risk relates to:
 - Impairments, particularly for agricultural customers
 - Investment portfolio income and derivatives as a result of, among other things, interest rate movements

Nykredit Group financial ratios

	2014	2015	2016	2017	2018
Net interest income (as % of lending and deposits)	0.69	0.69	0.71	0.70	0.68
Profit (loss) for the period (as % pa of average equity)	-0.5	5.0	8.0	10.9	7.5
Total assets, DKKbn	1,457.3	1,383.8	1,400.6	1,426.7	1,448.0
Risk Exposure Amount (REA), DKKbn	358.7	310.3	348.4	335.7	343.6
Leverage ratio, %	-	-	5.0	4.6	4.8
Total capital ratio, %	17.2	20.7	21.9	23.9	23.5
CET1 capital ratio, %	15.4	19.4	18.8	20.6	21.0

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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