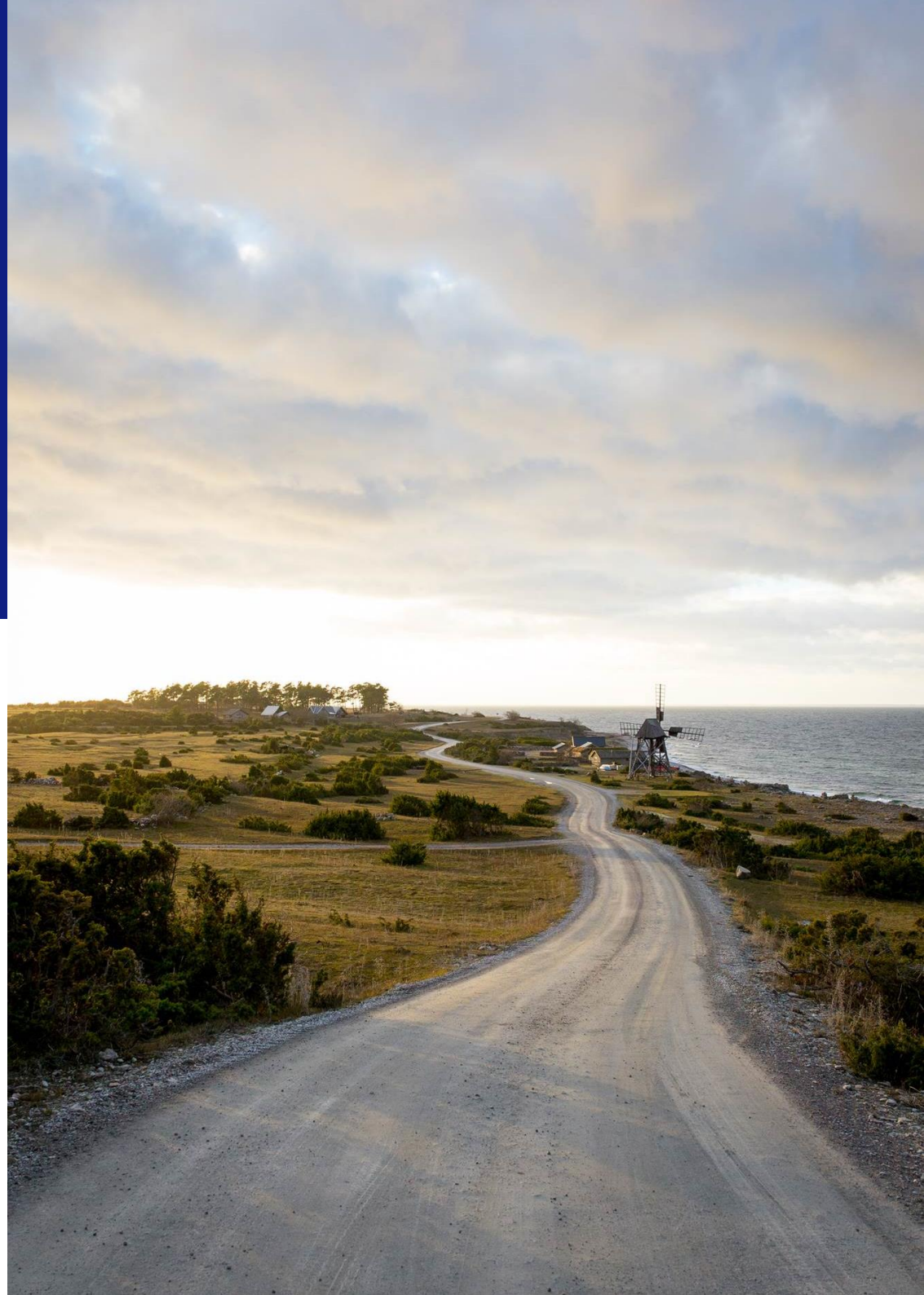


Nykredit Group

FY 2019 Earnings call

05/02/2020

Numbers relate to
Nykredit Group



Agenda

1

Highlights and strategy comments

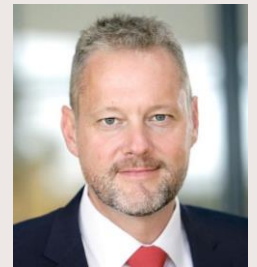
CEO Michael Rasmussen



2

Financial performance, credit and funding plans

CFO David Hellemann



3

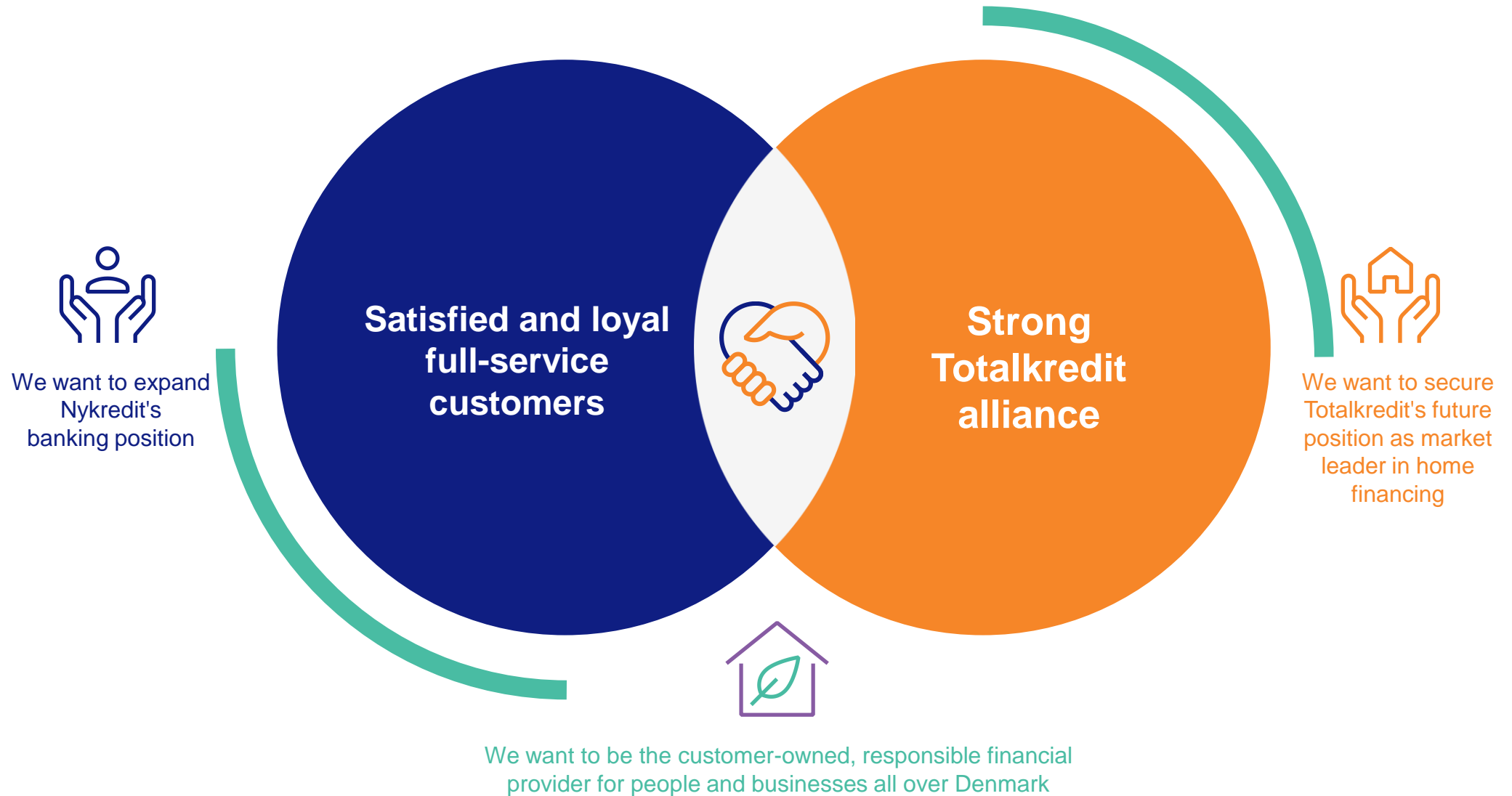
Q&A

Highlights of a busy and satisfactory 2019

- Business profit of DKK 8.3bn - 23% higher than 2018
Profit before tax DKK 8.8bn including M&A gains
- Busy year with very high remortgaging activity for existing and new customers – reflected in both income and costs
- Volume growth in all areas: Mortgage lending, bank lending and wealth management
- Costs increasing 9% due to Sparinvest, Shared Valuation, compliance and high business activity, Cost:Income ratio 36.5%
- Completion of two acquisitions: Sparinvest in Wealth Management and LR Realkredit in mortgage lending
- Changed organization and integration of staff in Wealth Management and Shared Valuation
- Strengthened our partnership with the partner banks in asset management, property valuation and IT



Winning the Double 2.0



Sparinvest – an essential strategic element of Winning the Double 2.0



Satisfied and loyal full-service customers

through a strong wealth management setup offering a more attractive and broader product portfolio



A **solid Totalkredit alliance** through even stronger relationships with several small and medium-sized Totalkredit partner banks



Joint development and scaling benefits

strengthen Nykredit and our Totalkredit partner banks



Growth in Nykredit

- Inflow of new full service retail customers
- Mortgage lending
- Bank lending
- Wealth Management

LR Realkredit

- Mortgage loan portfolio of DKK 22bn
- Acquisition price below book value due to ownership structure
- Nykredit booked income of DKK 564m in one-off gain from the acquisition

Strong partnership

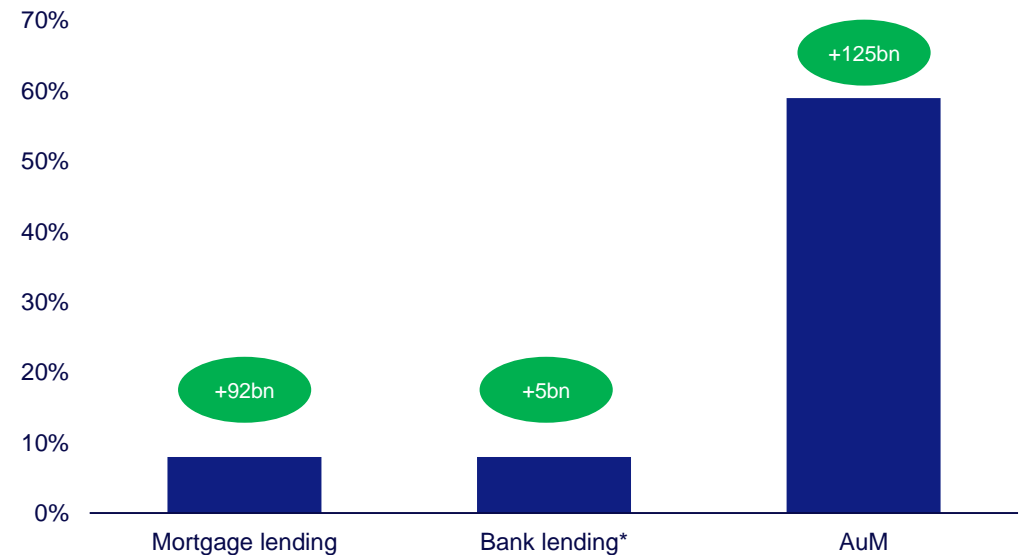
- Joint Valuation
- Sparinvest
- IT platform
- Growth in Totalkredit

Summary

Our underlying business is doing well

- We see significant volume growth in all our business units
 - Mortgage lending in Totalkredit and Nykredit grew 8% or DKK 92bn
 - 8% growth (DKK 6bn) in bank lending* driven by both retail and commercial customers
 - 59% growth in Assets under Management
Sparinvest contributed 48%
- Nykredit is consistently attracting new full service retail customers
- Acquisitions and integration of shared valuation services has not hindered organic growth in a busy year
- Updated organisation
- Significant strengthening of the strategic alliance with partner banks through Shared Valuation and acquisition of Sparinvest

Growth in all business areas in 2019



* Including Secured home loans transferred to Totalkredit

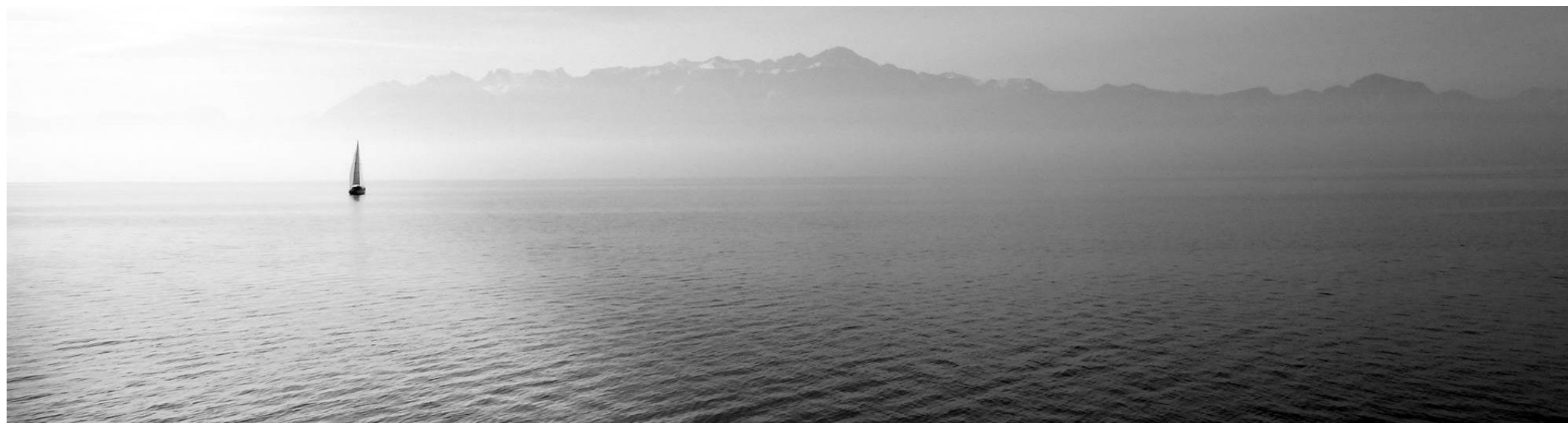


Financial performance, credit and funding

CFO David Hellemann

Group financial highlights 2019 - Income

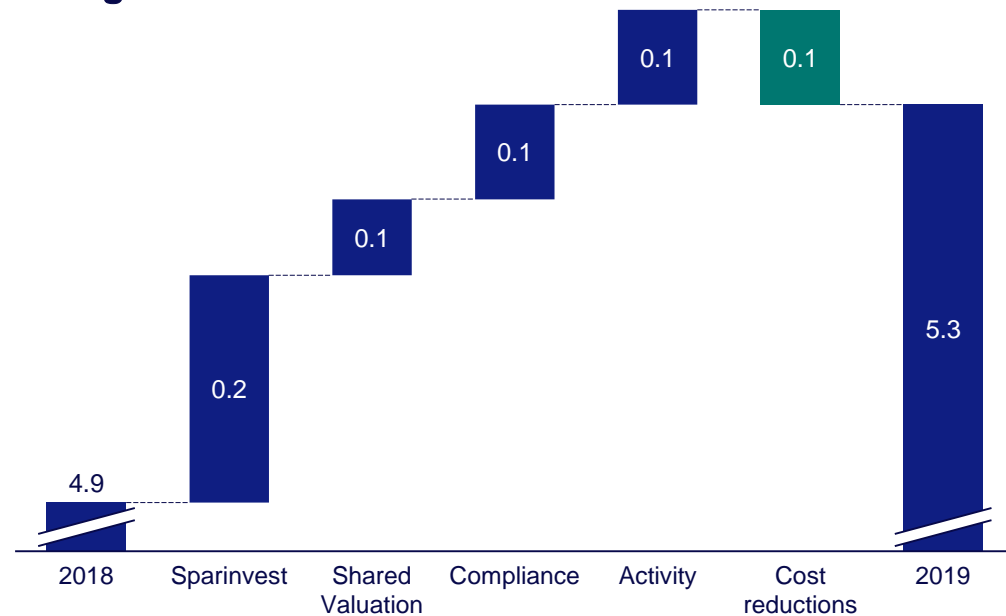
DKK m	2018	2019		
Net Interest Income	9,226	9,344	+1%	Driven higher by larger volumes and reduced by shift in mortgage product mix
Net Fee Income	1,951	2,739	+40%	Very high remortgaging activity
Wealth Management Income	1,361	1,610	+18%	Sparinvest acquisition, inflow of funds and value adjustments drive AuM higher
Customer benefits & capitalisation costs	-604	-710	+18%	Capitalisation costs broadly stable. Costs related to customer benefits increasing as timing of the payments and the contribution from Forenet Kredit do not match
Trading and Investment portfolio	89	1,673		Positive effect from bond spreads and share prices, negative from derivatives
Total income	12,023	14,656	+22%	



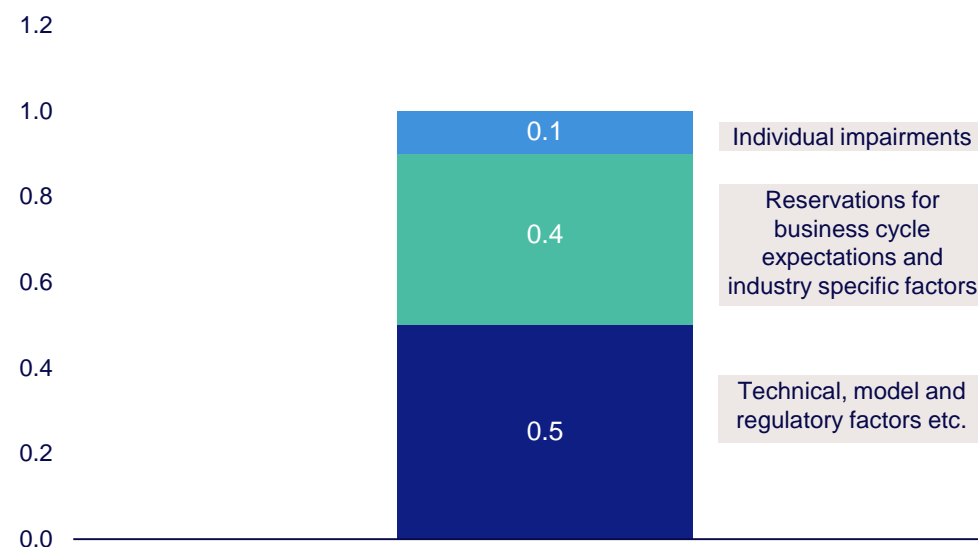
Group financial highlights 2019 – Costs and impairment charges

DKK m	2018	2019		
Total income	12,023	14,656	+22%	
Costs	4,890	5,347	+9%	Higher due to Sparinvest, Shared Valuation, compliance and increased business activity
Impairment charges	380	994	+261%	Credit quality remains sound. Increase in impairments to 7 bps primarily driven by technical and regulatory factors
Business profit	6,753	8,314	+23%	Satisfactory year

Change in costs



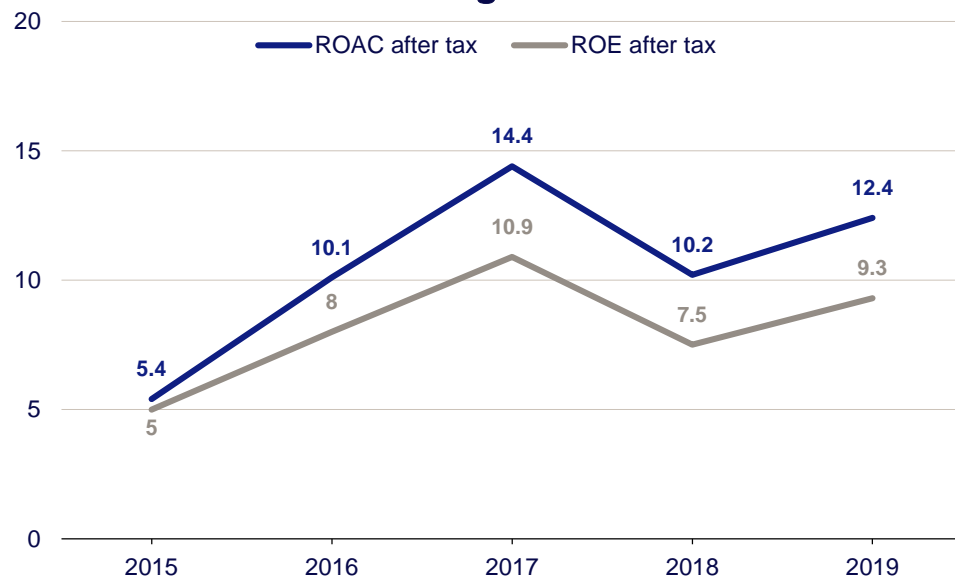
Impairments, DKKbn



Group financial highlights 2019 – Profit before tax

DKKm	2018	2019		
Business profit	6,753	8,314		
Legacy derivatives	280	-112	-	Small loss in 2019 despite large movements in interest rates during the year
Badwill	-	564	-	Acquisition of LR Realkredit
Profit before tax	7,033	8,766	+25%	Significantly better than expected at the beginning of the year
Tax	1,242	1,340	+8%	
Profit after tax	5,792	7,427	+28	

ROAC* well above 8.5% target



Profit after tax and ROE

- Profit after tax of DKK 7.4bn
- ROE 9.3%
- ROAC of 12.4%
- Proposed dividend of DKK 3.6bn

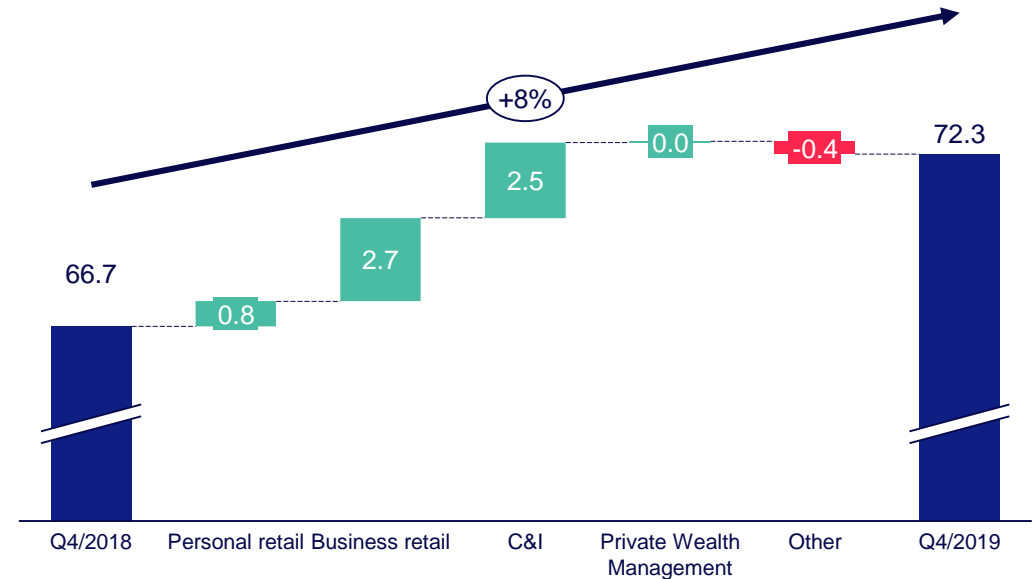
* Return On Allocated Capital based on a proforma 16% CET1 ratio. Source: Nykredit company reports

Business development – Bank lending and Wealth Management

Bank lending

- Satisfactory inflow of new full service bank customers
- 8% growth in bank lending* in 2019
- Lending growth driven by corporate customers
- Still muted demand for bank loans from households

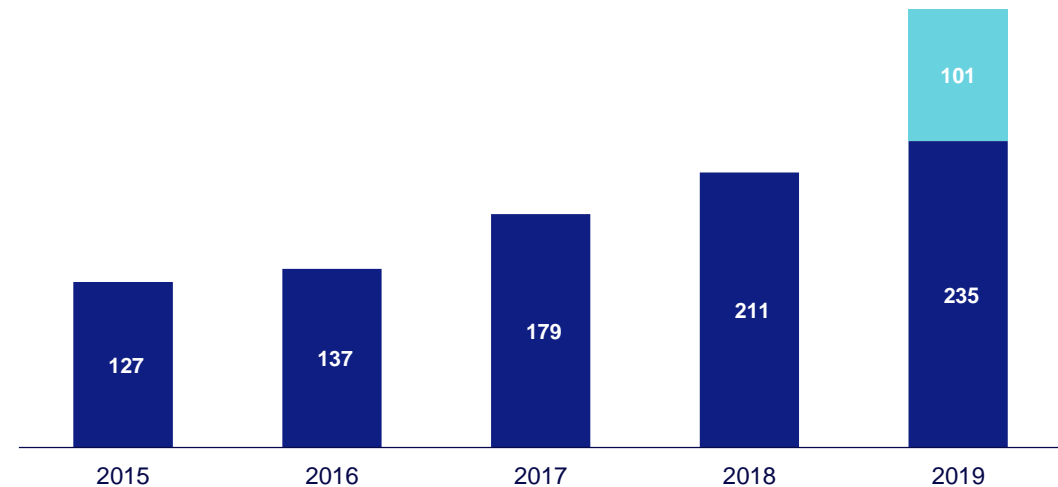
Bank lending up by 8%



Wealth Management

- Organic growth in AuM driven by both new funds and strong investment performance
- Acquisition of Sparinvest with effect from 1 September 2019

Assets under Management, DKKbn



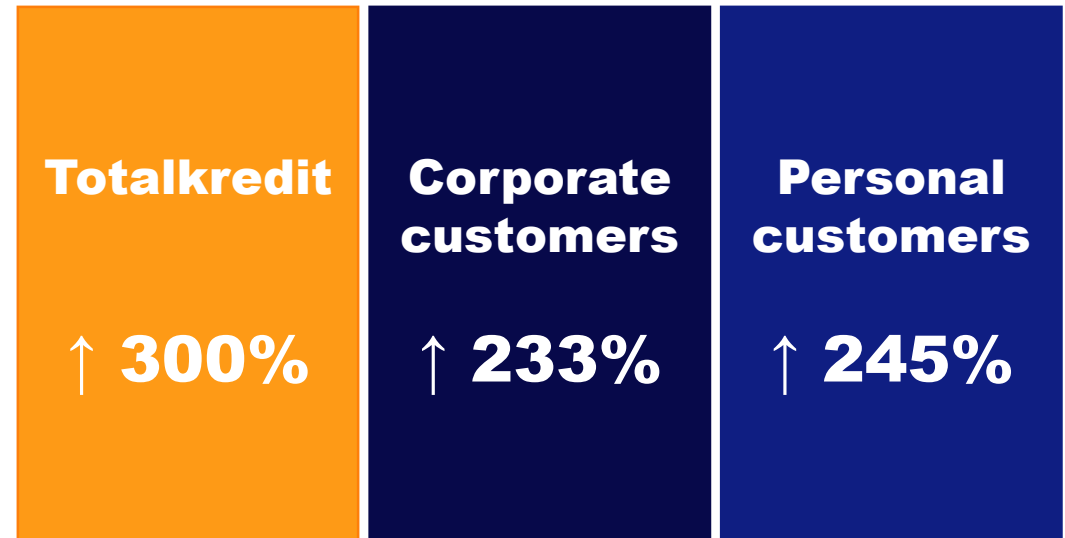
* Including Secured home loans transferred to Totalkredit

Business development – high activity and growth in mortgage lending

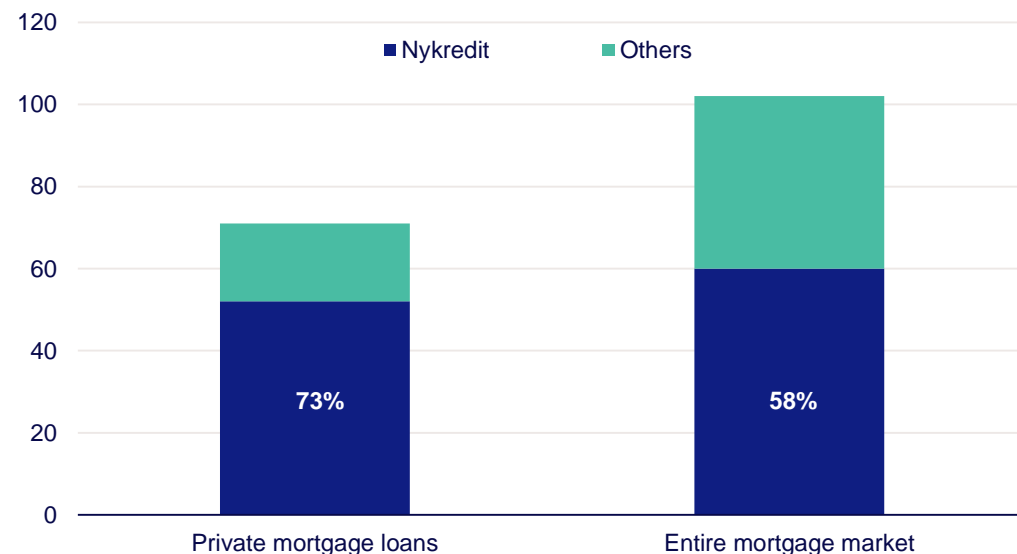
High activity and growing market share

- Significantly higher market share of new loans than on existing stock
- Nykredit captured a large share of the growth in the mortgage market
- Growing resilience in the portfolio
 - More even geographical distribution
 - Reduced credit and refinancing risk for Nykredit and lower churn
 - Lower interest rate risk for customers

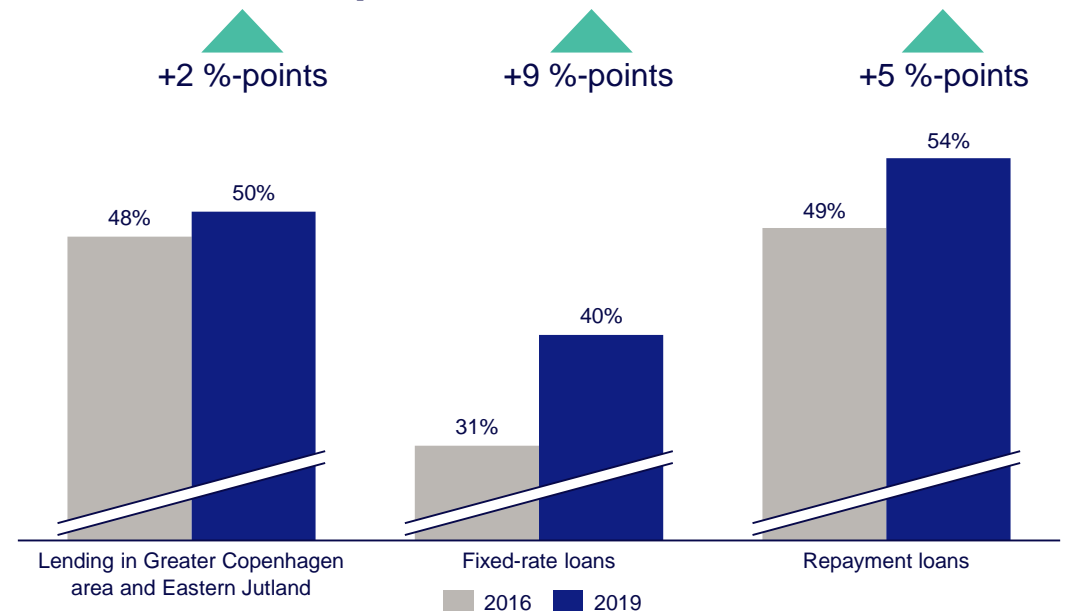
Number of loan offers – 2019 vs. 2018



Nykredit takes the lion's share of the growth, DKKbn

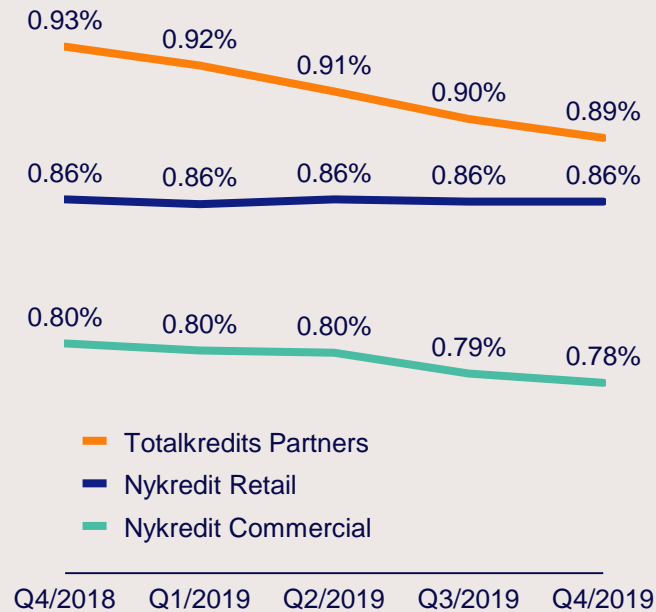


More resilient loan portfolio

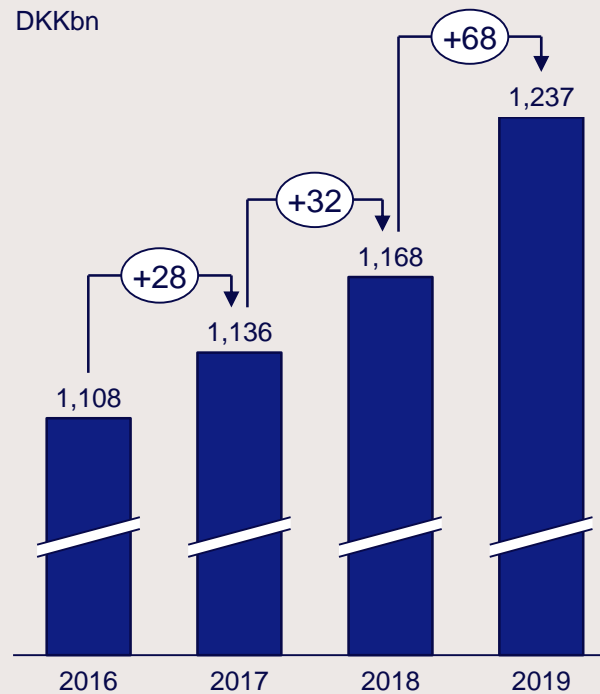


Business development – impact of change in mortgage product mix

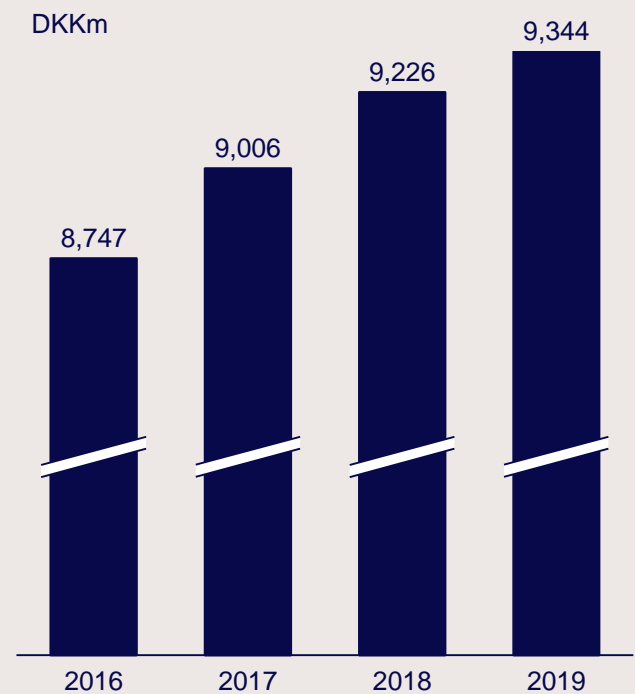
The development in the portfolio composition implies **lower margins ...**



... which are compensated for by **lending growth* ...**



... that leads to **increasing Net Interest Income**



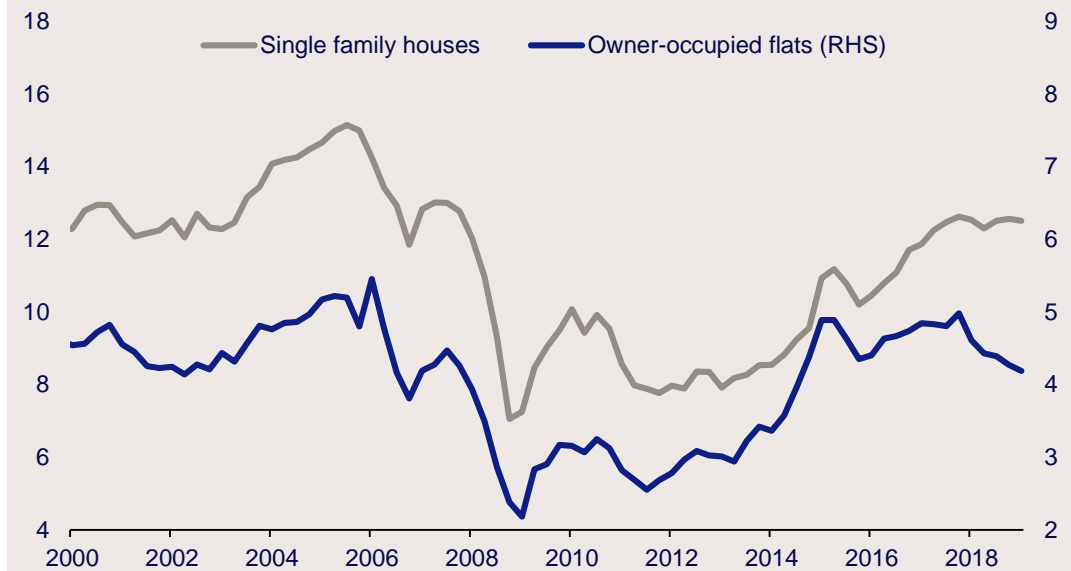
* Does not include LR Realkredit

Credit quality and housing market remain strong

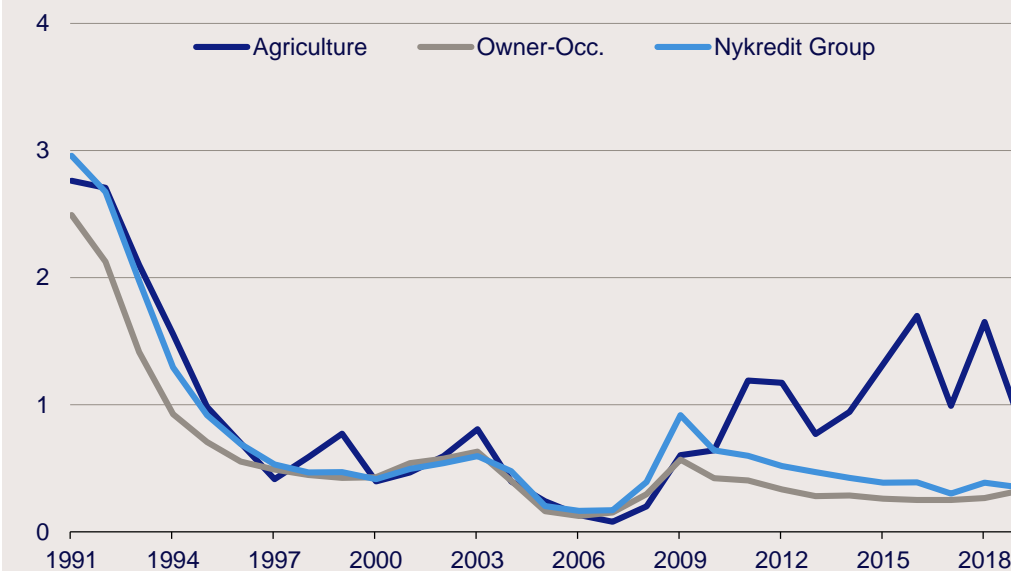
The market for owner-occupied dwellings remains strong

- Turnover of owner-occupied dwellings remains robust
- Tougher mortgage loan underwriting criteria and relatively high supply of newly built apartments are factors cooling the market for flats – especially in Copenhagen
- Macro-prudential measures seem to work as intended
- Danish GDP is growing healthily, and unemployment remains low
- Mortgage arrears for loans to the agricultural sector have seen a slight decline, and write-offs have returned to normal levels

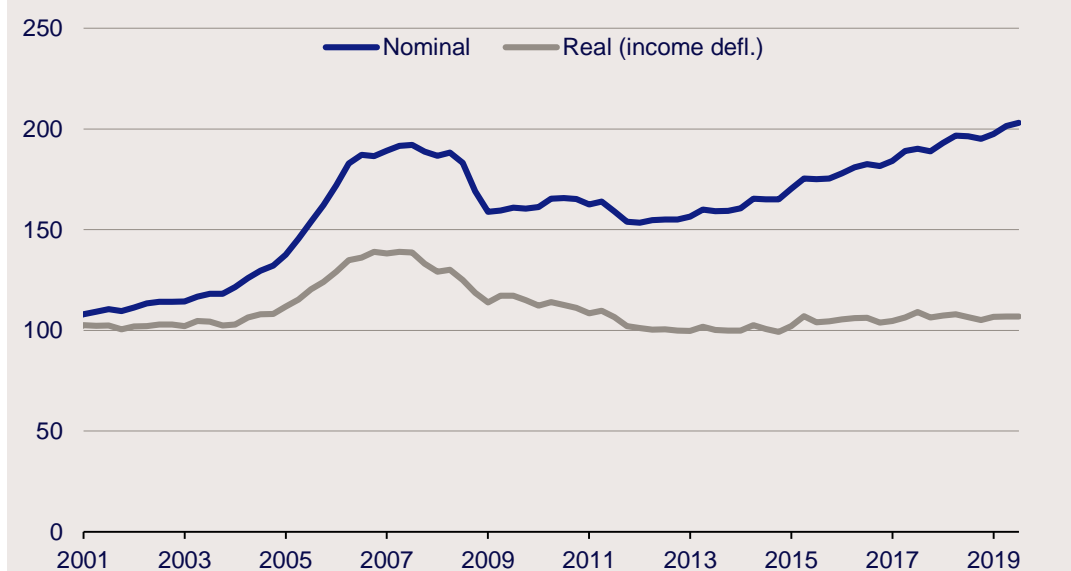
Turnover of owner-occupied dwellings (DKK '000 per quarter)



75-day mortgage arrears, %



Real estate price development, DKK '000 per sqm



Source: Macrobond, Nykredit Group. Real estate prices and turnover are seasonally adjusted.

Strong CET1 ratio and issuance of senior non-preferred debt

Capital development

- REA has increased DKK 35bn, or 10% since end-2018
- REA inflation driven by volume growth including LR Realkredit and changes to risk capital models
- CET1 ratio declined 150bp to 19.5% driven by REA inflation, Sparinvest acquisition and dividends
- CET1 still significantly above capital policy of 15.5-16.5% CET1
 - In line with target of maintaining buffer for Basel IV impact
 - Basel buffer above capital policy target amounts to 300-400bp of CET1

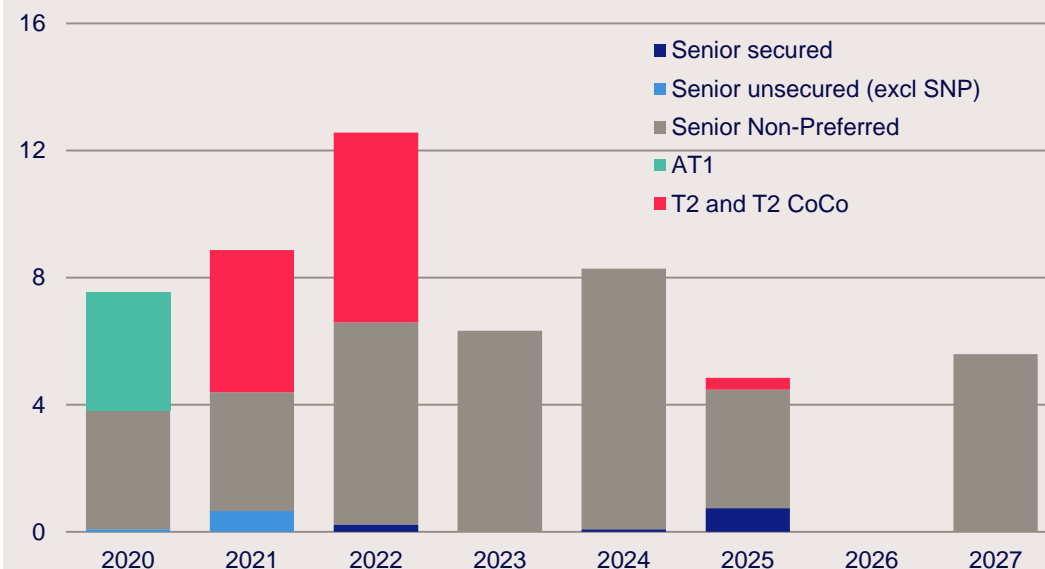
Funding plans

- Legislation requires Nykredit to increase the amount of bail-inable liabilities from currently DKK 120bn to 135-145bn by end-2021
- DKK 1.7bn of the increase will be covered by refinancing old senior debt with senior non-preferred debt
- Nykredit expects to issue DKK 20bn in senior debt during 2020 – primarily in SNP format of which DKK 7.5bn has been issued in January
- Next quarterly refinancing auctions of covered bonds in February
- Daily tap-issuance of covered bonds

Capital key figures

Nykredit Group	End-2018	End-2019
Risk Exposure Amount (REA)	343.6bn	378.3bn
CET1	72.4bn	74.1bn
CET1 ratio	21.0%	19.5%
Total capital ratio	23.5%	22.4%
Leverage ratio	4.8%	4.4%
Pillar I	8.0	8.0
Pillar II	2.0	2.9
Solvency requirements	10.0	10.9

Nykredit Group maturity* profile, DKKbn



* For capital instruments first call date. Covered bonds are not included. Source: Nykredit company reports.

2019 summary and profit guidance for 2020

A very satisfactory 2019 well ahead of expectations

- Profit before tax of DKK 8.8bn is satisfactory and exceeds our expectations
- Continuous inflow of customers and volume growth in both mortgage lending, banking and wealth management
- Net interest income growing due to higher volumes as change in product mix and competition put downward pressure on margins
- Costs increasing 9% due to high business activity, Shared Valuation, Sparinvest and compliance
Cost:Income ratio below 40%
- Overall credit quality remains strong and increase in impairment charges is mainly driven by technical factors and regulation
- We have strengthened our partnership with the local and regional banks during the year

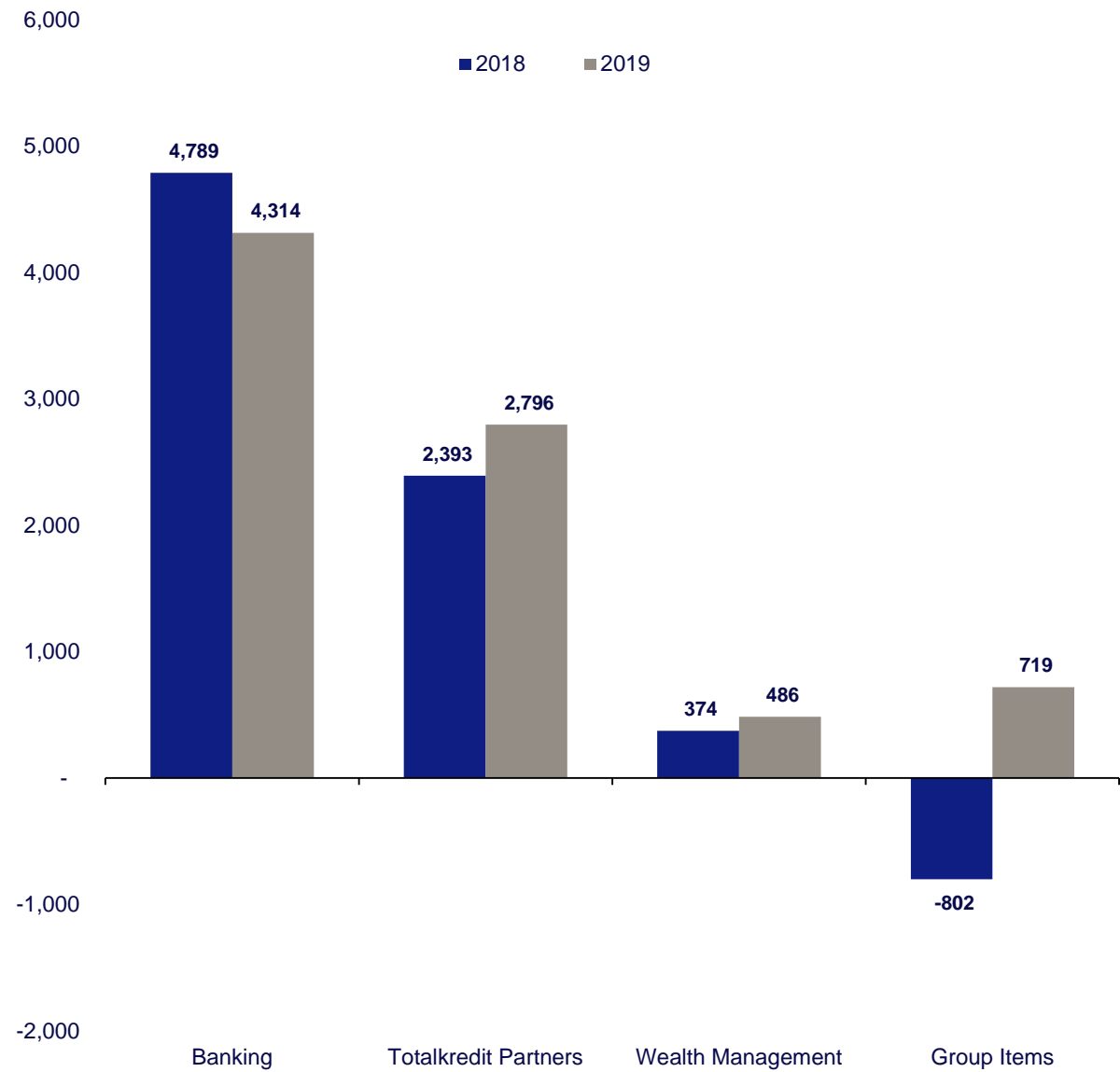
2020 guidance

- Guidance for full-year business profit in the range of DKK 6.25-6.75bn
- High remortgaging activity unlikely to be repeated and investment portfolio income is also expected to be lower than in 2019
- The most significant risk relates to:
 - Investment portfolio income and derivatives as a result of, among other things, interest rate movements
 - Impairments

Appendix

05/02/2020

Business areas, profit before tax, DKKm



Q4 in isolation: A busy quarter with tailwind from financial markets

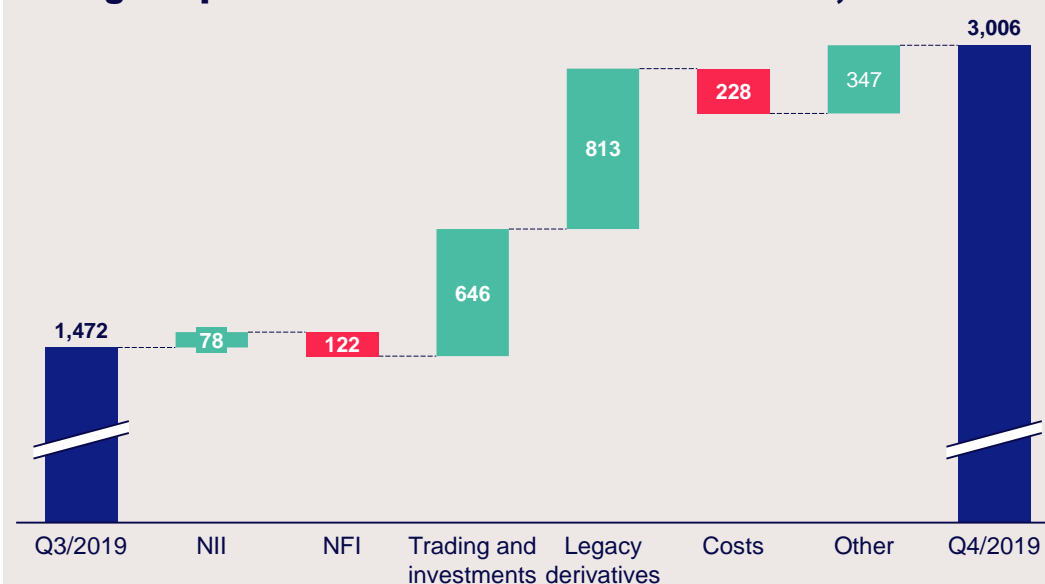
Strong NFI, but trading and investment income weaker

- Increase in income driven primarily by higher fee income from remortgaging activity
 - NII up 3%
 - Wealth management income up 24%
Sparinvest included in September
 - Net fee income 14% lower than Q3, but still at a high level
- Higher prices of bank shares, higher rates and tighter spreads resulted in a gain of DKK 509m in trading, investment portfolio and other income
- Costs increased by 17% due to Sparinvest and a high level of remortgaging
- Impairment charges increased 42% Q/Q driven by technical factors and reservations
- Business profit of DKK 1,957m Q4 compared with DKK 1,800m for Q3
- Legacy derivatives recorded a positive value adjustment of DKK 785m as long swap rates increased
- One-off gain from acquisition of LR Realkredit of DKK 564m
- Profit before tax of DKK 3,006m, up 108% on Q3

Business results Q3 vs Q4/2019

DKKm	Q3/2019	Q4/2019	Index
Income	3,340	3,823	114
- Net interest Income	2,337	2,415	103
- Net fee income	853	731	86
- Wealth management income	397	494	124
- Net interest from capitalisation	-90	-90	100
- Net interest income from customer benefit programmes	-19	-236	1242
- Trading, investment portfolio and other income	-137	509	-
Costs	1,309	1,536	117
Business profit before impairment charges	2,032	2,287	113
Impairment charges	232	329	142
Business profit	1,800	1,957	109
Legacy derivatives	-328	485	-
Badwill	-	564	-
Profit before tax	1,472	3,006	204
Tax	233	426	183
Profit	1,239	2,581	208

Change in profit before tax from Q3 to Q4/2019, DKKm



Source: Nykredit company reports

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