Nykredit Group

H1/2019 Earnings call

20/08/2019

Numbers relate to
Nykredit Group

Nykredit

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 satisfactory H1/2019

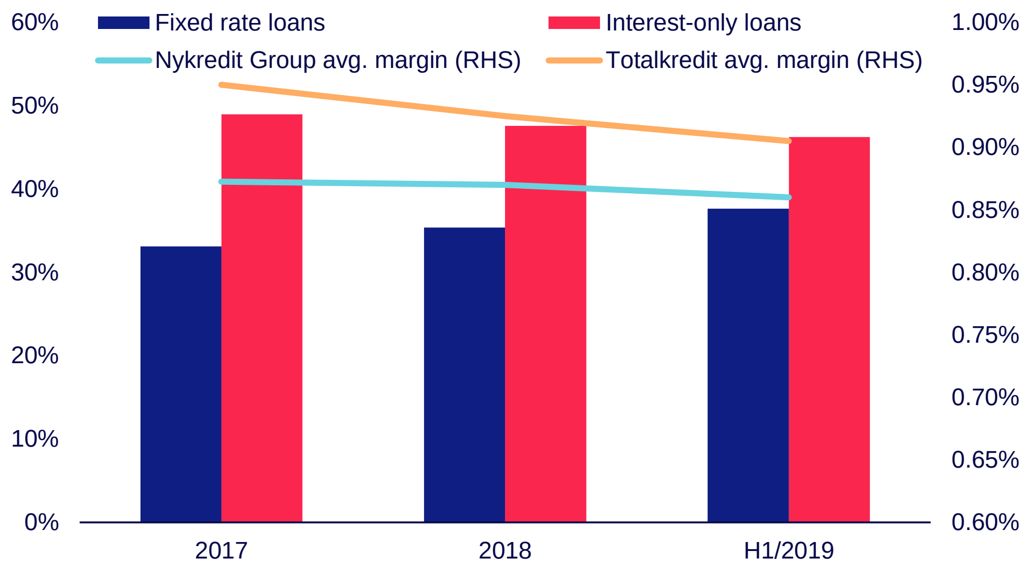
- Business profit of DKK 4.6bn, up 0.7bn or 19% on H1/2018 – full-year profit guidance increased by 0.75bn
- Volume growth in mortgage lending, banking and wealth management
- 1% growth in NII despite downward pressure from change in mortgage product mix and competition
- NFI up 12% due primarily to very high remortgaging activity
- Trading and investment portfolio income up DKK 934m, driven up by bank shares and down by derivatives
- 4% increase in costs due to business growth, Shared Valuation, compliance and IT
- 3 bps impairment charges as credit quality remains strong

Business development – mortgage lending

Massive remortgaging activity

- More than 10% of the Group's mortgage loan portfolio has been pre-paid so far in 2019
- Massive new loan production as customers take advantage of record low long-term interest rates …
- … and the remortgaging activity is still ongoing
- Remortgaging gives rise to one-off fee income and some short-term increase in NII
- But it also puts material downward pressure on NII going forward as average mortgage margins decrease
- Shift in mortgage product mix towards fixed rate loans and fewer interest-only loans also brings benefits
  - Improves affordability
  - Reduces customer's interest rate risk
- Danish covered bond market shows its resilience and absorbs the large portfolio shifts smoothly

Change in product mix puts pressure on mortgage margins

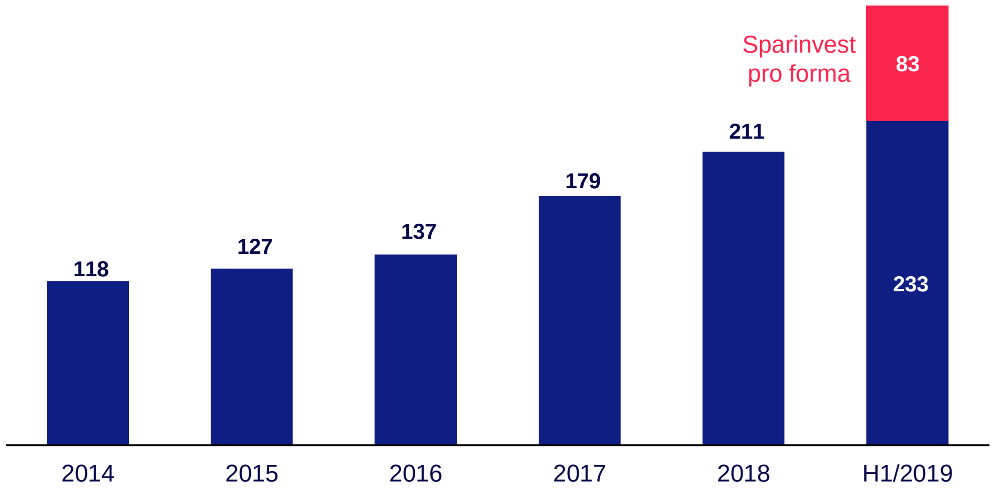


Business development – Sparinvest

Acquisition of asset manager Sparinvest

- Nykredit will acquire 75% of Sparinvest
- Sellers are 40+ Danish banks
  - Partners with Totalkredit/Nykredit in mortgage lending
  - The partner banks will retain 25% of the company …
  - … and will continue to sell AM services from Sparinvest to their customers
- The acquisition and future cooperation will strengthen Nykredit's strategic partnership with partner banks
- Sparinvest had AuM of DKK 83bn at end-2018
- The transaction has now been approved by all regulators and will be completed on 30 August 2019

Assets under Management



Business development – Shared Valuation

Shared Valuation

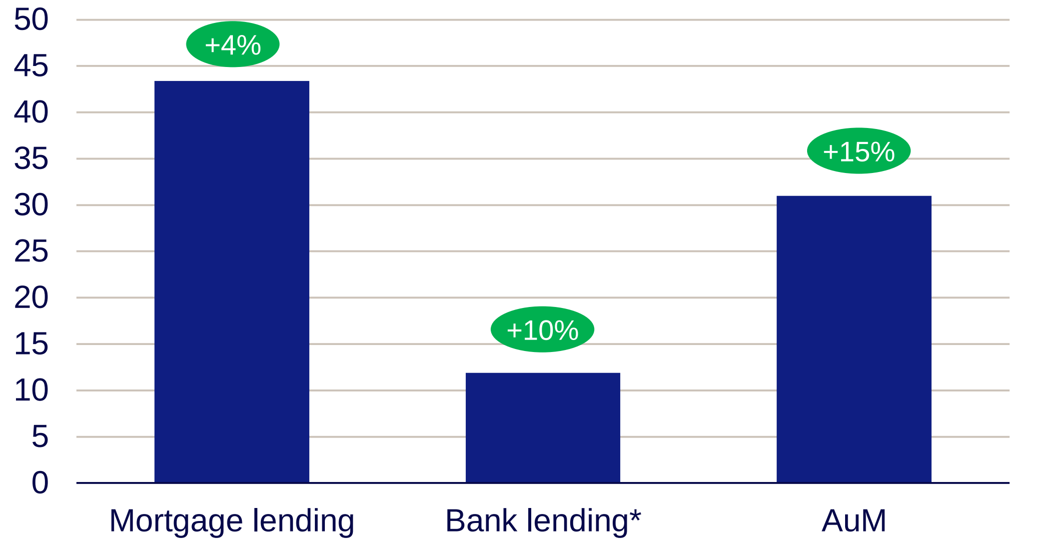
- Shared Valuation is a strategic cooperation between Nykredit and the Totalkredit partner banks
- Nykredit will provide property valuation services
  - to all partner banks
  - to Nykredit and Totalkredit
- Valuers who were previously employed by the partner banks are now integrated into Nykredit's organisation
- A large commitment to the strategic partnership from the partner banks
- Large scope for reaping joint benefits for Nykredit and the partner banks:
  - Efficiency gains from one rather than many organisations
  - Uniform valuation standards
  - Accumulation of more and better data for models
  - Wider use of model valuation for loan approvals, capital requirements and impairment calculations
- The integration of banks' valuers has increased Nykredit's headcount and thus also costs, but banks will pay for valuation
- We do not expect any net effect on P/L

Summary

Our underlying business is doing well

- We see significant volume growth in all our business units in a market with muted growth
  - Mortgage lending in Totalkredit
  - Mortgage lending in Nykredit
  - Bank lending to both retail and commercial customers
  - Assets under management
- Nykredit is consistently attracting new full service retail customers
- Growth in net interest income driven by larger volumes
- High net fee income due to the ongoing remortgaging surge
- We see larger than usual uncertainty regarding profit before tax as market uncertainty is significantly higher than usual
- But we expect our underlying business to perform well for the rest of 2019 as the remortgaging surge is expected to continue

Broad-based growth



* Including Secured home loans transferred to Totalkredit

Financial performance, credit and funding

CFO David Hellemann

Group financial highlights H1/2019 vs H1/2018

DKKm	H1/2018	H1/2019		
Net Interest Income	4,557	4,592	+1%	Driven higher by larger volume and lower by shift in mortgage product mix
Net Fee Income	1,028	1,155	+12%	Vey high mortgage remortgaging activity
Wealth Management Income	670	719	+7%	Inflow of new funds and value adjustments drives AuM higher
Customer benefits & capitalisation costs	-283	-275	-3%	Broadly stable
Trading and Investment portfolio	367	1,301	+254%	DKK +934m driven by higher share prices and negative value adjustments for derivatives
Costs	2,414	2,502	+4%	Higher due to and increased business volume, compliance, IT, Shared Valuation
Impairment charges	103	433	+320%	3bps reflecting strong credit quality and gradual normalisation of credit costs
Business profit	3,821	4,557	+19%	Better than expected – full year guidance upgraded
Legacy derivatives	219	-269	-	DKK -488m driven by lower interest rates, but somewhat mitigated by technical issues and credit
Profit before tax	4,040	4,288	+6%	Better than expected
ROAC*	11.6%	12.2%	+0.8	Well above 8.5% target

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

Banking business unit

Performance highlights

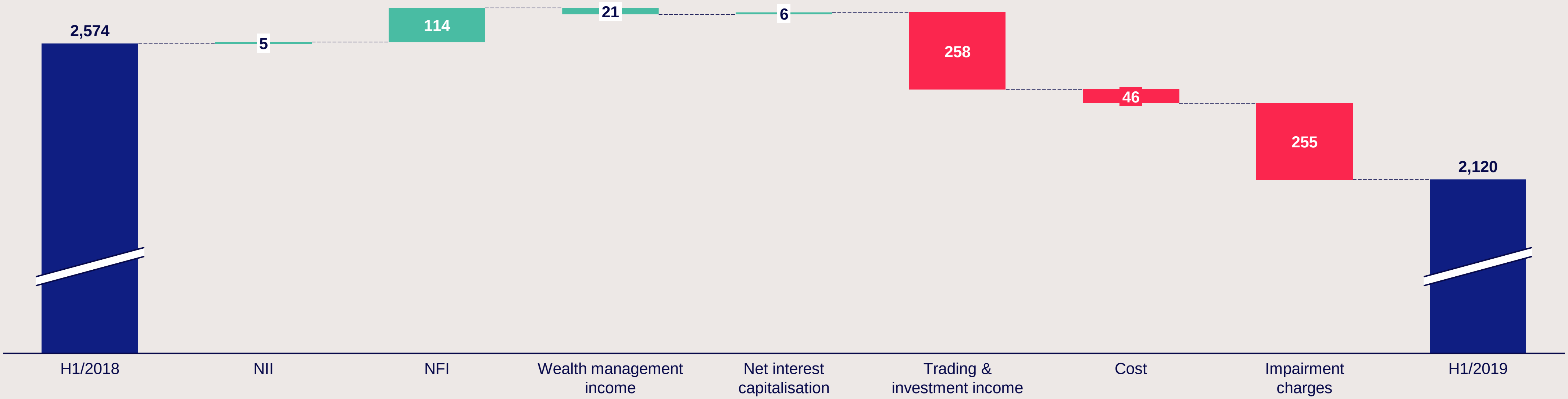
- Fundamentally, business is developing satisfactorily with volume growth and stable NII income
- NII flat, as a slight decline in retail business lending is more than offset by growth in C&I lending
- NFI up 15%, driven by customers' remortgaging activity
- Trading and investment portfolio income DKK 258m lower, driven solely by value adjustments on active derivatives
- Costs up 3%, driven by high remortgaging activity, implementation of Shared Valuation and compliance
- Impairment charges amounted to 6bp
- Business profit of DKK 2.1bn vs 2.6bn due to derivatives and impairments
- Legacy derivatives DKK 0.5bn weaker than in H1/2018

Business volume

Banking, DKKm	H1/2018	H1/2019	Index
Mortgage lending	591,090	592,356	102
Bank lending	52,342	57,704	110
Secured homeowner loans	6,568	7,723	118
Deposits	57,368	61,176	107

Development in banking business profit H1/2018 vs H1/2019

DKKm



Totalkredit Partners business unit

Perfomance highlights

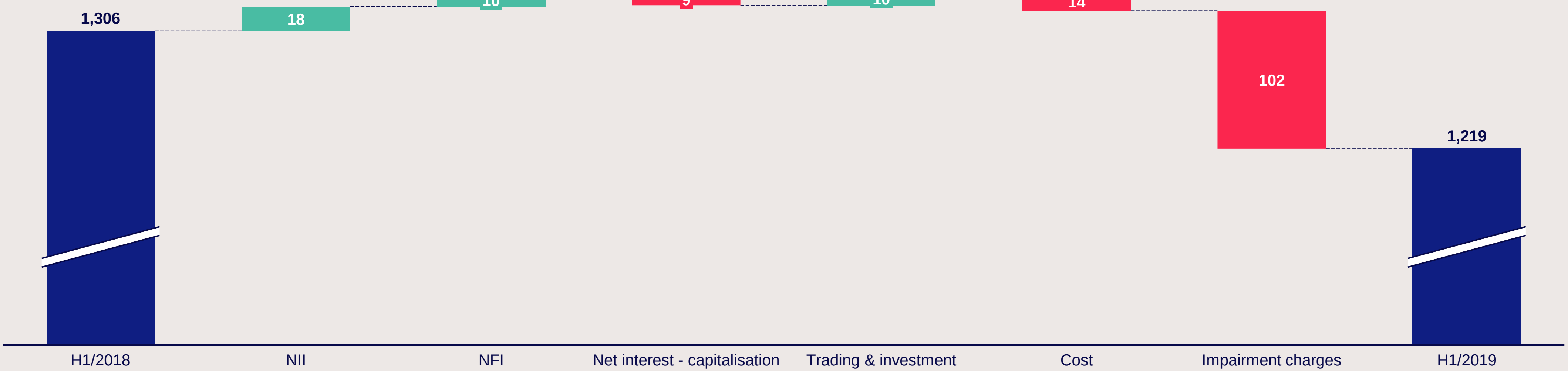
- Strong growth in the loan portfolio and sound credit quality
- Total income up 2%, driven primarily by higher NII
  - NII up 1%, driven by higher volumes with lower average margin
  - NFI up 4%, as remortgaging activity accelerated in Q2
- Costs up 5%, driven by high remortgaging activity, implementation of Shared Valuation and compliance
- Still virtually no impairment charges: From 44m write-back to cost of 58m
- Business profit of DKK 1.2bn vs 1.3bn due primarily to DKK 0.1bn increase in impairment charges

Business volume

Totalkredit, DKKm	H1/2018	H1/2019	Index
Mortgage lending	538,136	579,362	108
Secured homeowner loans	11,338	10,545	93

Development in Totalkredit Partners' business profit H1/2018 vs H1/2019

DKKm



Wealth Management business unit

Perfomance highlights

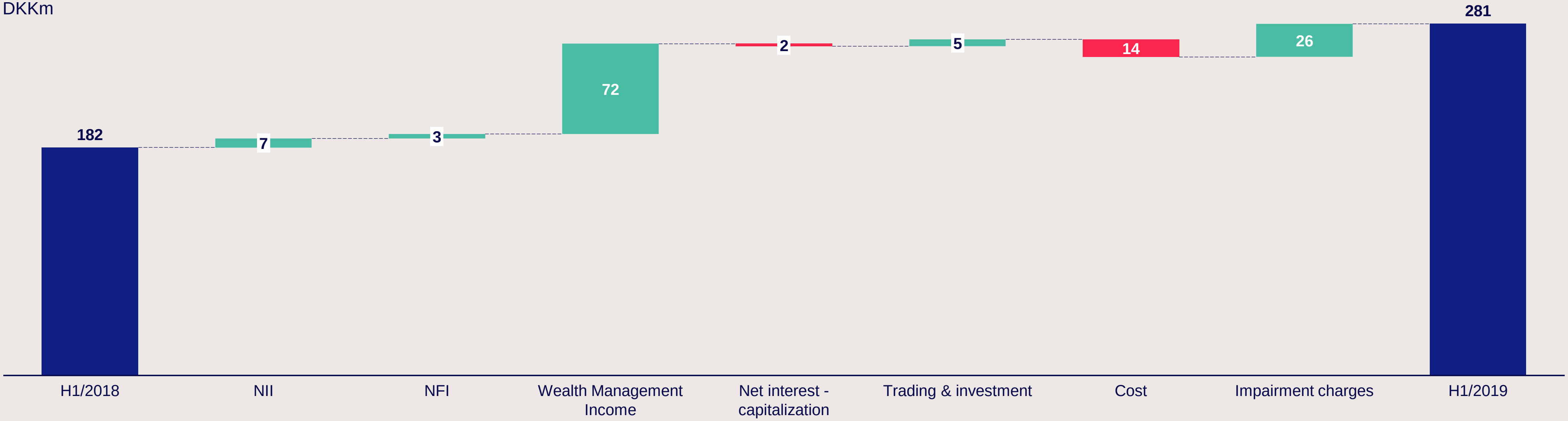
- Continued healthy inflow of new funds – Sparinvest will boost AuM in Q3
- Total income up 21%, driven by fee income from asset management and Markets
  - Fee income from asset management and markets (wealth management income) up 21%
  - NII up 12%, but not a major income generator in Wealth Management
- Good inflow of funds under management including in mutual funds driven by strong investment performance
- Costs up 6%
- Business profit of DKK 0.3bn vs 0.2bn due to volume growth

Business volume

Wealth Management, DKKm	H1/2018	H1/2019	Index
Lending	11,679	12,771	109
Deposits	12,060	16,598	138
Assets under management	202,425	232,852	115
Assets under administration	688,620	755,342	110

Development in Wealth Management's business profit H1/2018 vs H1/2019

DKKm

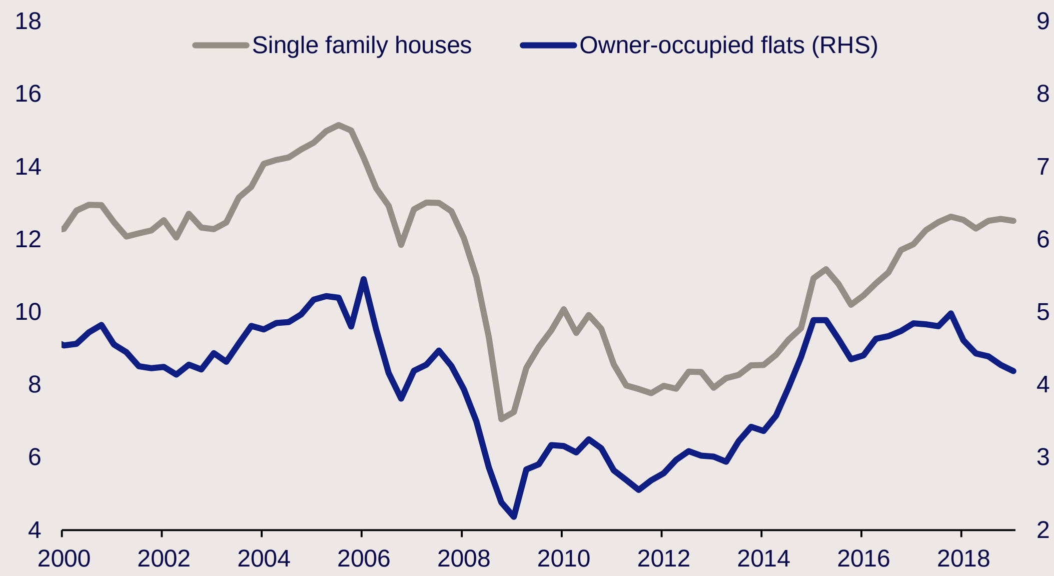


Housing market varies across geography and property types

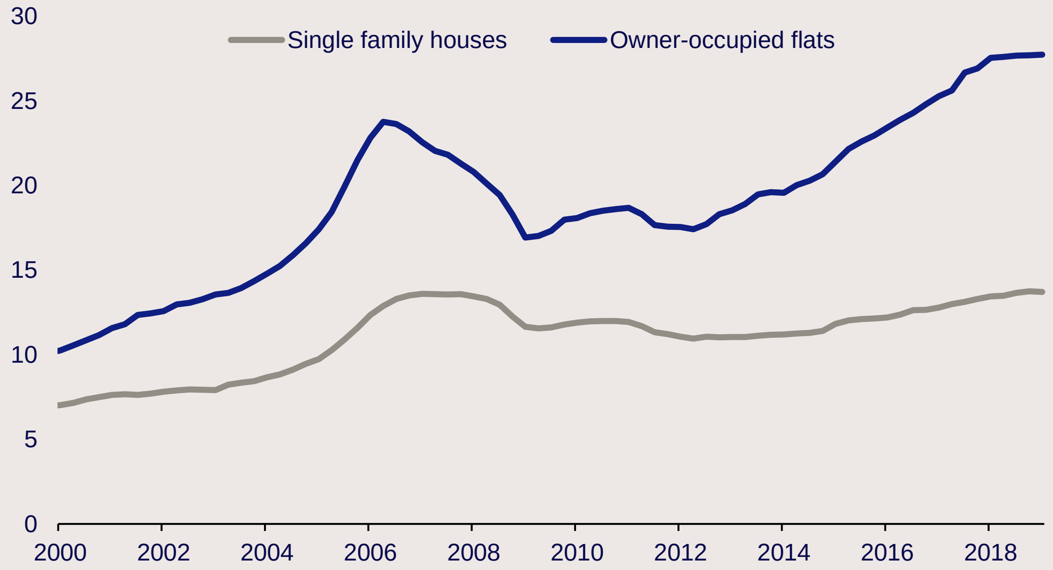
The market for owner-occupied dwellings remains strong

- Turnover from single family houses remains strong, while turnover from owner-occupied flats is slowing down
- Increasing prices and high turnover are more widespread outside the largest cities and from single family houses
- Higher prices, 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
  - Supply of newly built flats is expected to overshoot population growth in the short term in the largest cities
  - Buyers are starting to consider the effects of the new property tax regime

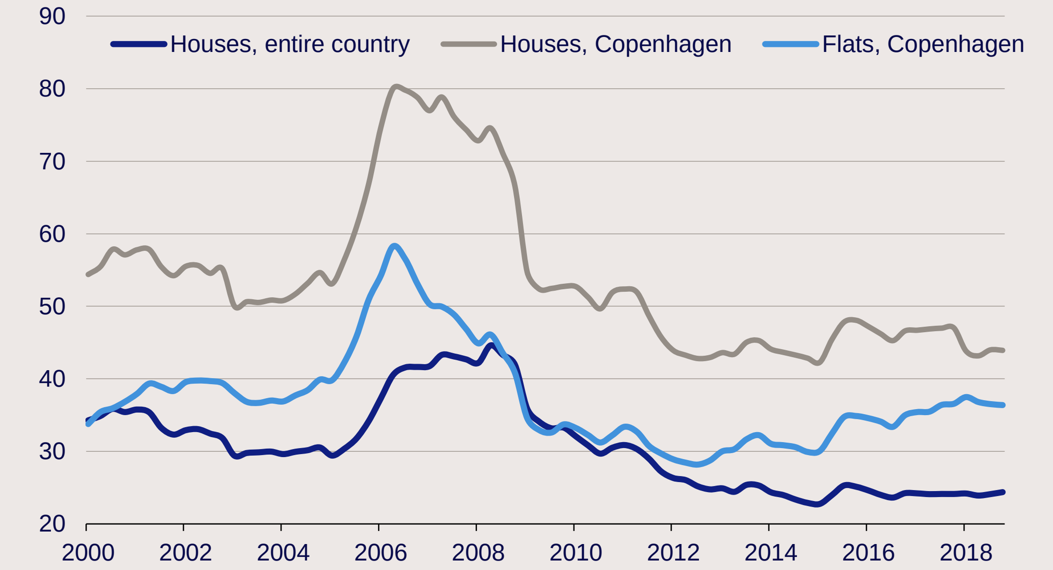
Turnover of owner-occupied dwellings (DKK '000 per quarter)



Real estate price development, DKK '000 per sqm



Housing burden, % of disposable income



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

Overall credit quality remains good, and agriculture is improving

Credit quality supported by Danish macroeconomics

- Danish GDP is growing healthily, and unemployment remains low

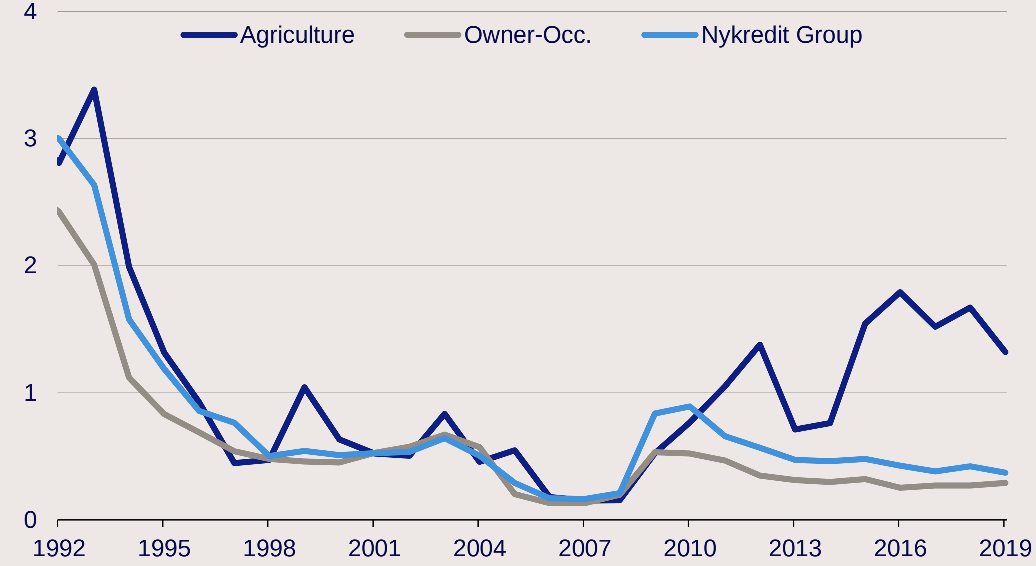
Agriculture

- African swine fever in Asia has driven pork prices up by 35% to a level where Danish pig farmers generally will return to profitability
- Mortgage arrears for loans to the agricultural sector have seen a slight decline, and write-offs have returned to normal levels

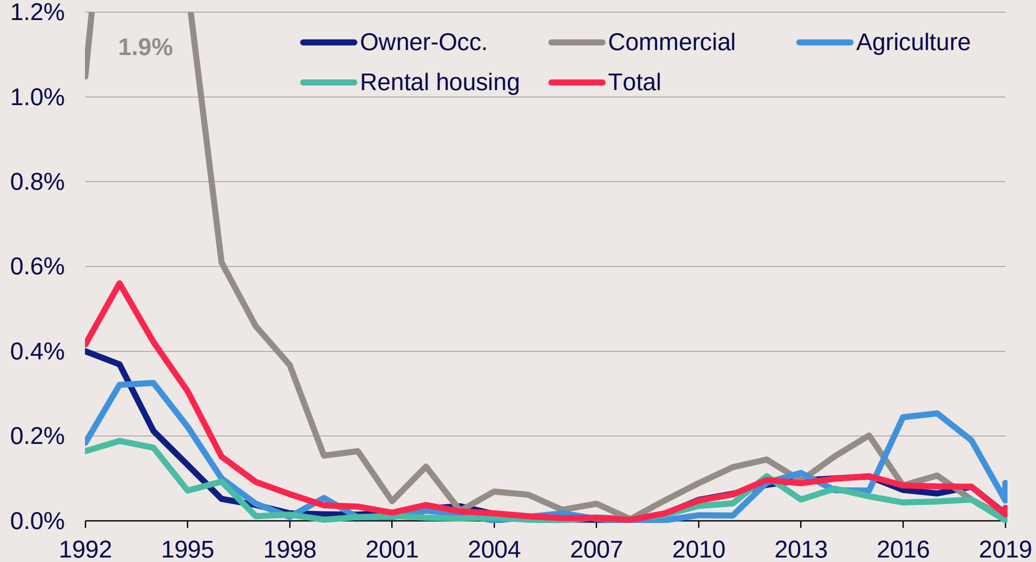
Geography

- 2/3 of mortgage loan growth recorded in major cities and other growth areas

75-day mortgage arrears, %



Mortgage lending: Write-offs as a % of debt



Source: Nykredit company reports and Fact Book

Strong CET1 ratio and issuance of senior non-preferred debt

Capital development

- REA 5% higher since end-2018
- REA inflation driven evenly by volume growth and changes to risk capital models
- CET1 ratio down 50bp to 20.5% driven by REA inflation
- CET1 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 400-500bp of CET1
- Acquisition of Sparinvest is estimated to reduce CET1 by 190bp upon closing

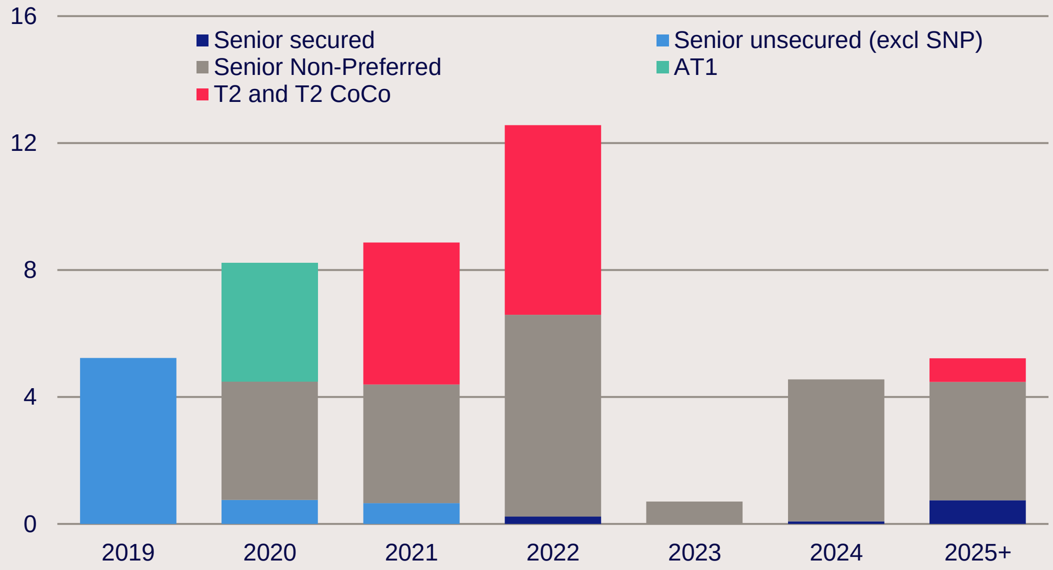
Group facts

Nykredit Group	End-2018	Q2/2019
Risk Exposure Amount (REA)	343.6bn	360.8bn
CET1	72.4bn	74.1bn
CET1 ratio	21.0%	20.5%
Total capital ratio	23.5%	23.2%
Leverage ratio	4.8%	4.7%
Pillar I	8.0	8.0
Pillar II	2.0	2.1
Solvency requirements	10.0	10.1

Funding plans

- Legislation requires Nykredit to increase the amount of bail-inable liabilities from currently DKK 115bn to 130-140bn by end-2021
- Part of the increase will be covered by refinancing senior debt types with senior non-preferred debt
- We expect to issue DKK 5-10bn of senior non-preferred debt in the remainder of 2019
- Quarterly refinancing auctions of covered bonds in August
- Daily tap-issuance of covered bonds

Nykredit Group maturity* profile, DKKbn



* For capital instruments first call date. Source: Nykredit company reports

H1/2019 summary and profit guidance

A satisfactory H1/2019 well ahead of expectations	
	▪ Profit for H1/2019 is satisfactory and exceeds our expectations … ▪ … but increased income mainly comes from volatile line items and temporary factors ▪ Continuous inflow of customers and satisfactory volume growth in both mortgage lending, banking and wealth management ▪ NII growing due to higher volumes ▪ Costs increasing slightly due to IT, compliance, Shared Valuation and hectic re-mortgaging activity Cost:Income ratio still well below 40% ▪ Overall credit quality remains strong. and loan loss provisions are expected to remain low ▪ Acquisition of asset manager Sparinvest will be completed at end-August

2019 guidance	▪ We upgrade our guidance for full-year business profit by DKK 0.75 to DKK 7.25-7.75bn
	▪ The most significant risk relates to:
	  ▪ Investment portfolio income and derivatives as a result of, among other things, interest rate movements
	  ▪ Impairments

Source: Nykredit company reports

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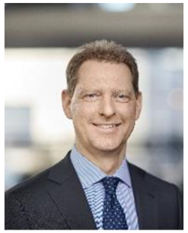

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Q2 in isolation: Business profit 9% higher than Q1 on mortgage fees

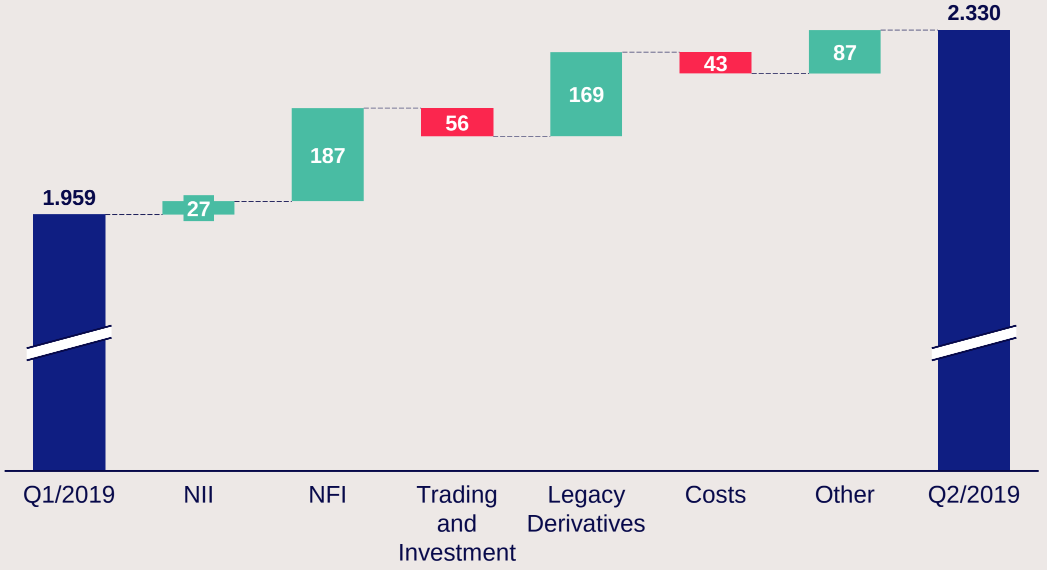
Income 7% higher than Q1

- Increase in income driven primarily by higher fee income from remortgaging activity
  - NII up 1%
  - Wealth management income up 5%
  - Net fee income 39% higher
- Continued increase in prices of bank shares maintained trading, investment portfolio and other income at a high level of DKK 623m
- Costs increased by 3% due to compliance, Shared Valuation and a high level of remortgaging
- Impairment charges broadly flat compared with Q1
- Business profit of DKK 2.4bn for Q2 compared with DKK 2.2bn for Q1 (up 9%)
- Legacy derivatives up by DKK 169m compared with Q1
- Profit before tax of DKK 2.3bn, up 19% on Q1

Business results Q1 vs Q2/2019

DKKm	Q1/2019	Q2/2019	Index
Income	3,627	3,865	107
- Net interest Income	2,283	2,310	101
- Net fee income	484	671	139
- Wealth management income	350	369	105
- Net interest from capitalisation	-89	-84	94
- Net interest income from customer benefit programmes	-80	-23	29
- Trading, investment portfolio and other income	679	623	92
Costs	1,230	1,273	103
Business profit before impairment charges	2,397	2,593	108
Impairment charges	219	213	97
Business profit	2,178	2,379	109
Legacy derivatives	-219	-50	23
Profit before tax	1,959	2,329	119
Tax	329	352	107
Profit	1,629	1,977	121

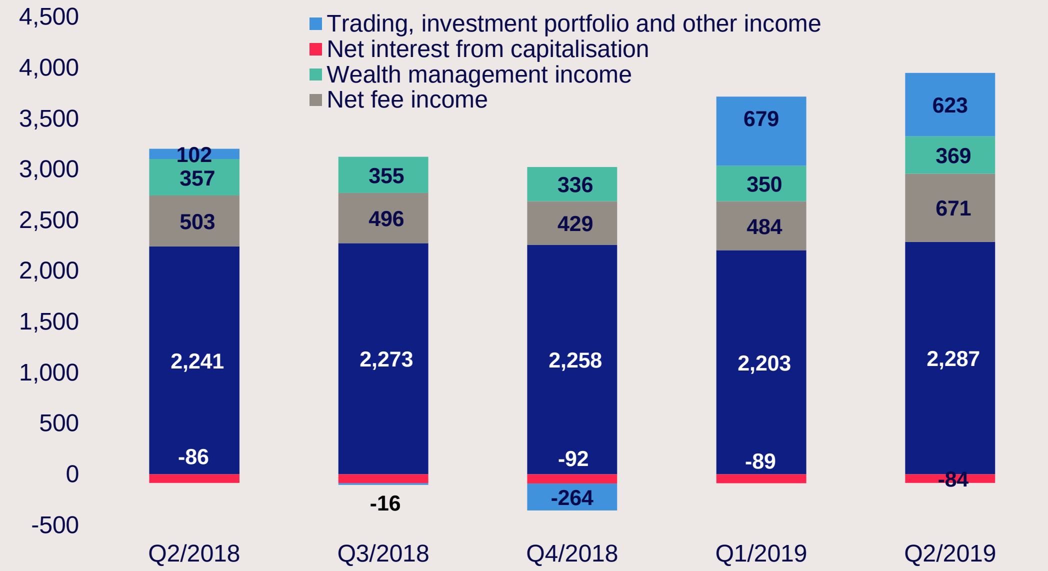
Change in profit before tax from Q1 to Q2/2019, DKKm



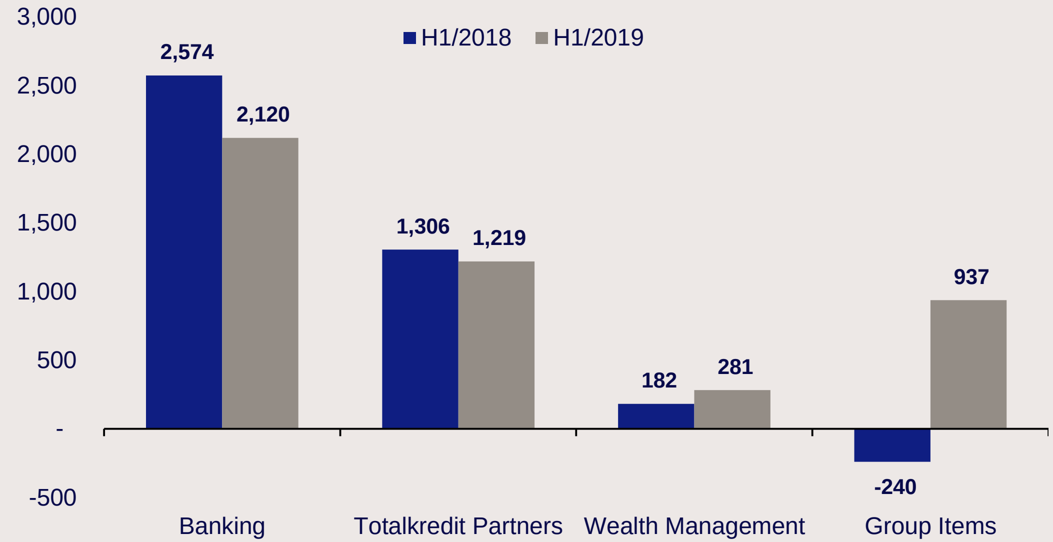
Source: Nykredit company reports

Operational highlights

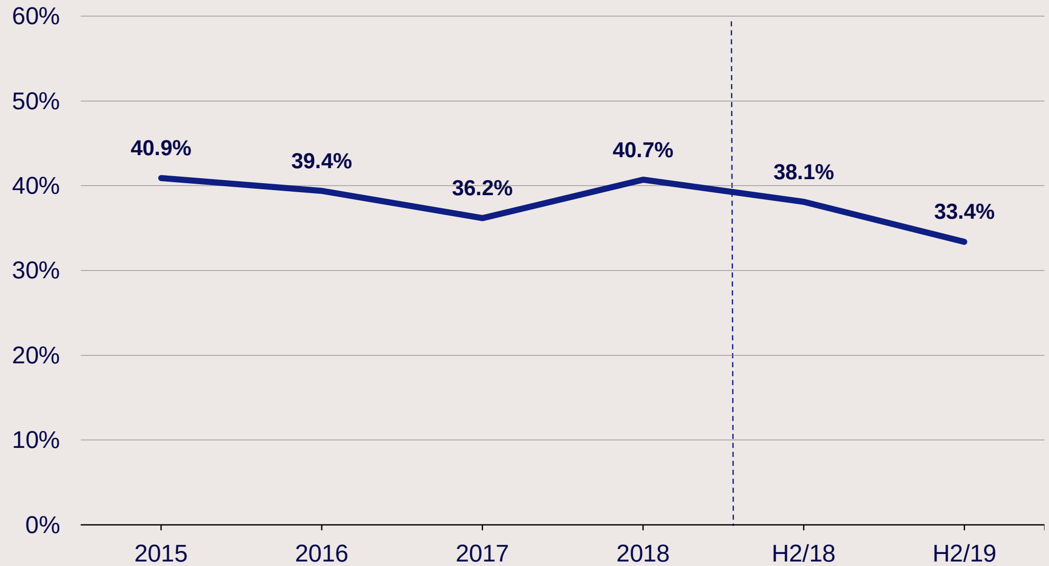
Income from business operations, DKKm



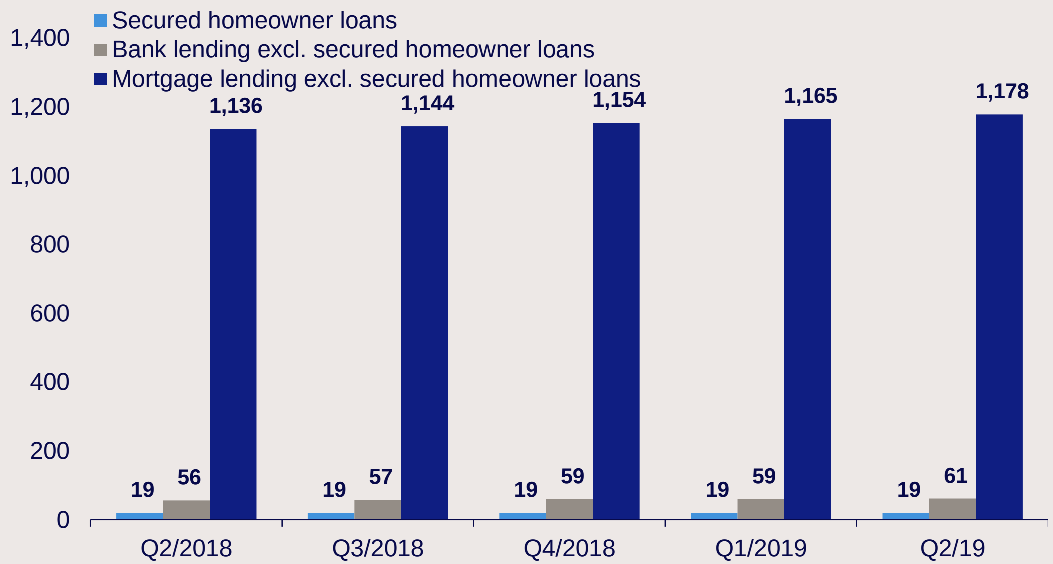
Business areas, profit before tax, DKKm



Group operational cost:income ratio, %



Total lending by category, DKKbn



Source: Nykredit company reports

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