

Nykredit Group

Investor presentation

June 2024

Nykredit



Nykredit Group key highlights

Denmark's largest lender

- AAA country with strong fiscal balances and low unemployment
- 45% market share on mortgage lending

Resilient, low-risk business model

- Main focus is lending to homeowners/SME's as well as wealth management
- 93% of the loan book is prime mortgage loans – of which 81% residential

Strong distribution network

- 580 branches across partners and Nykredit
- Risk sharing via 41 partner banks

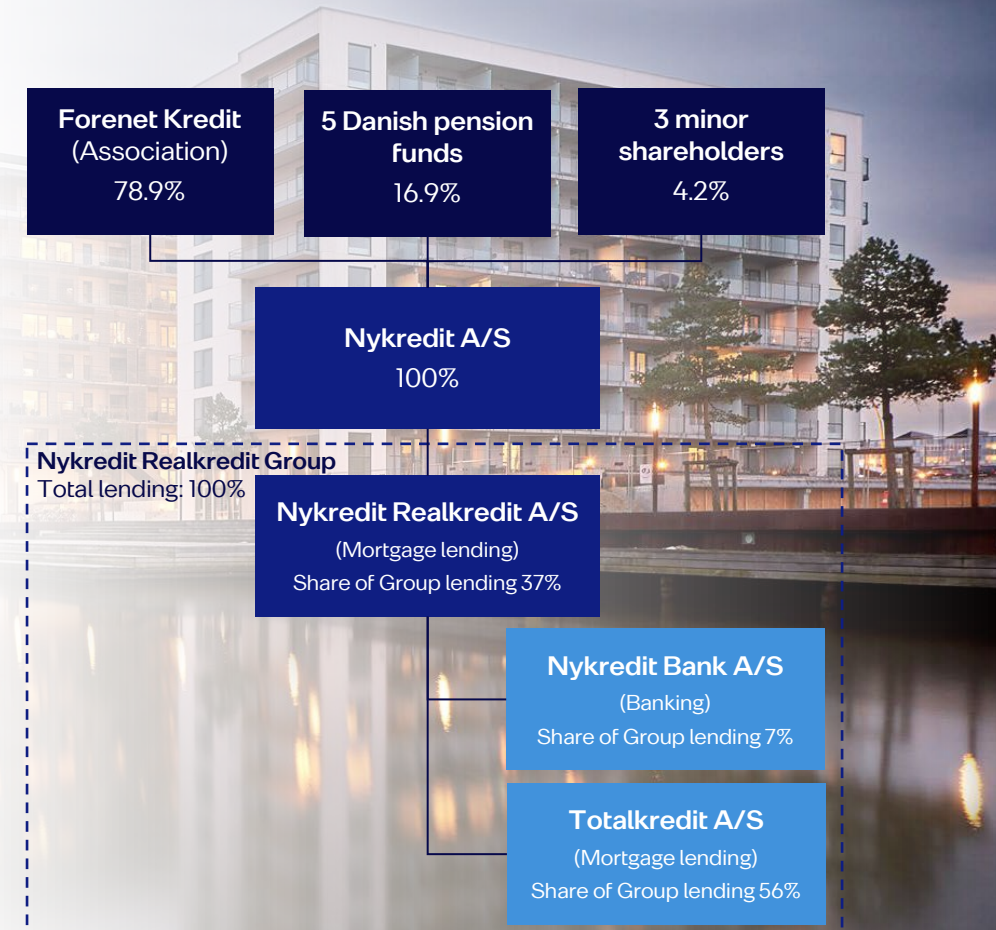
Mutual ownership provides competitive edge

- Customer association owning 80% of the Group
- The association supports the business with capital and customer benefits

Robust funding model

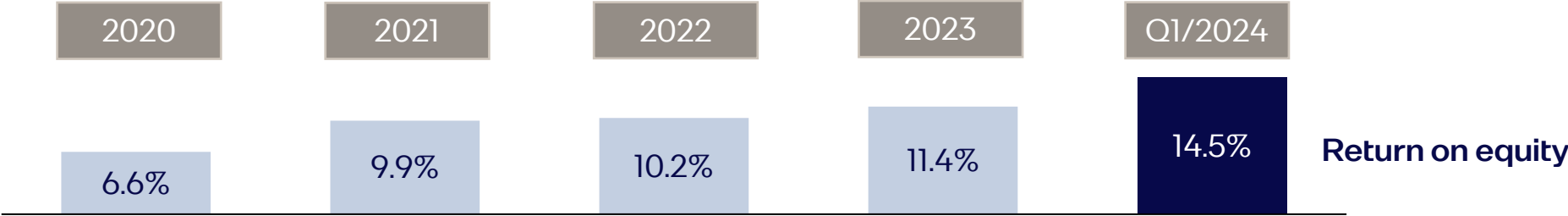
- Mortgage lending funded entirely by covered bonds
- ~75% of issued bonds placed domestically

Group structure

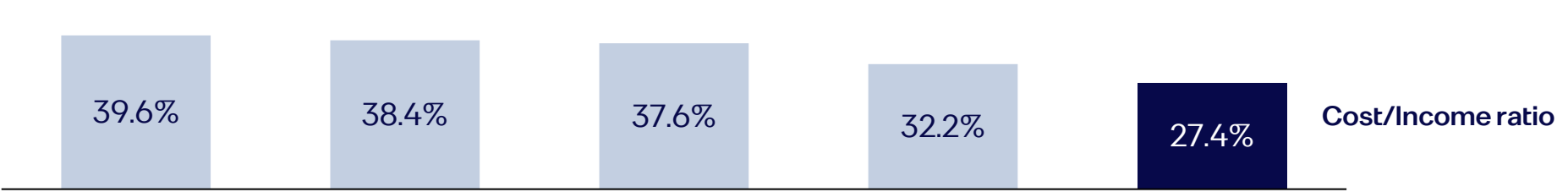


Increased profitability, stable earnings and strong capitalisation

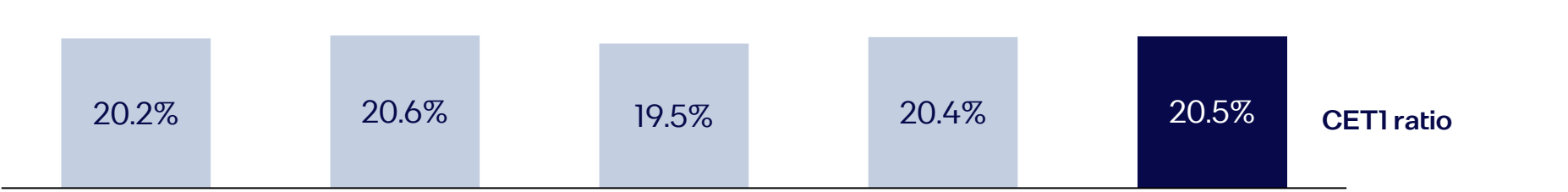
Return on equity target of at least **8%**



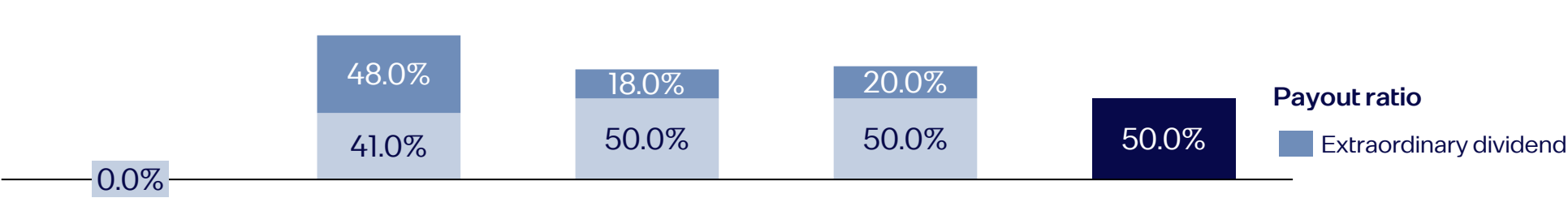
Cost/Income ratio target of **40%**



CET1 policy target of **15.0-16.0%**



Dividend policy of **50%**



Agenda

- **Nykredit Group business update**
- Business Strategy and corporate responsibility
- Capital
- Danish housing market and credit performance
- Liquidity and funding



Highlights of Q1 2024

Very strong results for Q1 2024



- Highest quarterly result ever, profit after tax of DKK 3.5bn
- Full year guidance raised to a profit of DKK 10.5-11.5bn for 2024
- Strong growth in core income driven by higher interest rates, high bank lending activity and wealth management income
- Trading and investment income positively impacted by financial market tailwind



Strong market position

- Despite low mortgage activity, we continue to take market share on personal mortgages
- Continued organic growth in our Wealth Management business



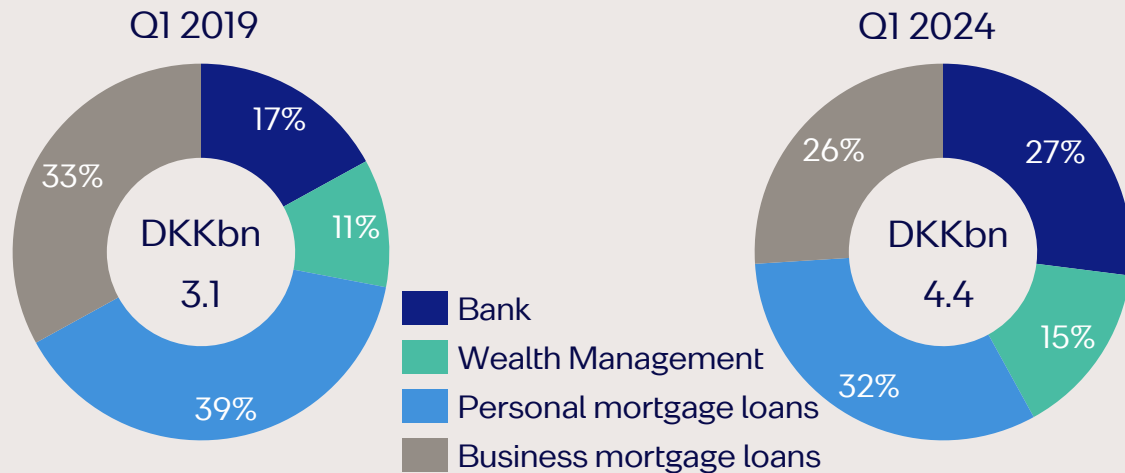
Robust capitalisation and resilient credit quality

- Credit quality remains strong despite higher interest rates
- CET1 ratio of 20.5% which is 500bp above capital policy target

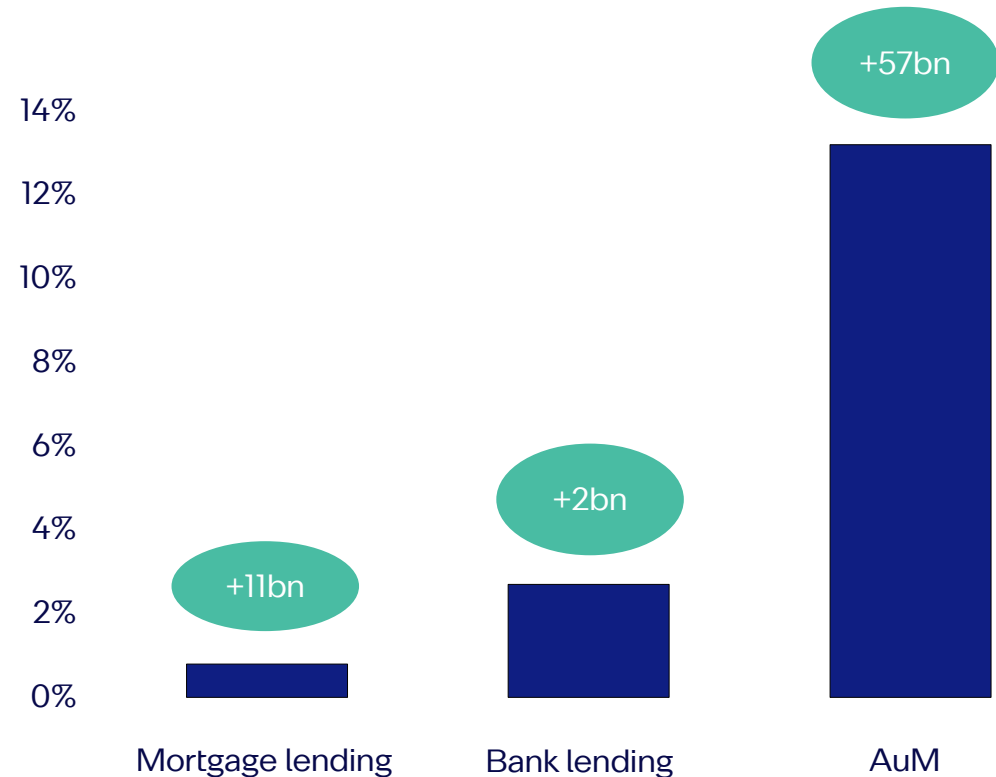
Continued volume growth and increasing income diversification

- Strong business performance with volume growth driven by:
 - Mortgage lending to Corporates & Institutions
 - Growth in bank lending driven by large corporates and retail customers
 - 13% growth in Assets under Management driven by new funds as well as positive value adjustments

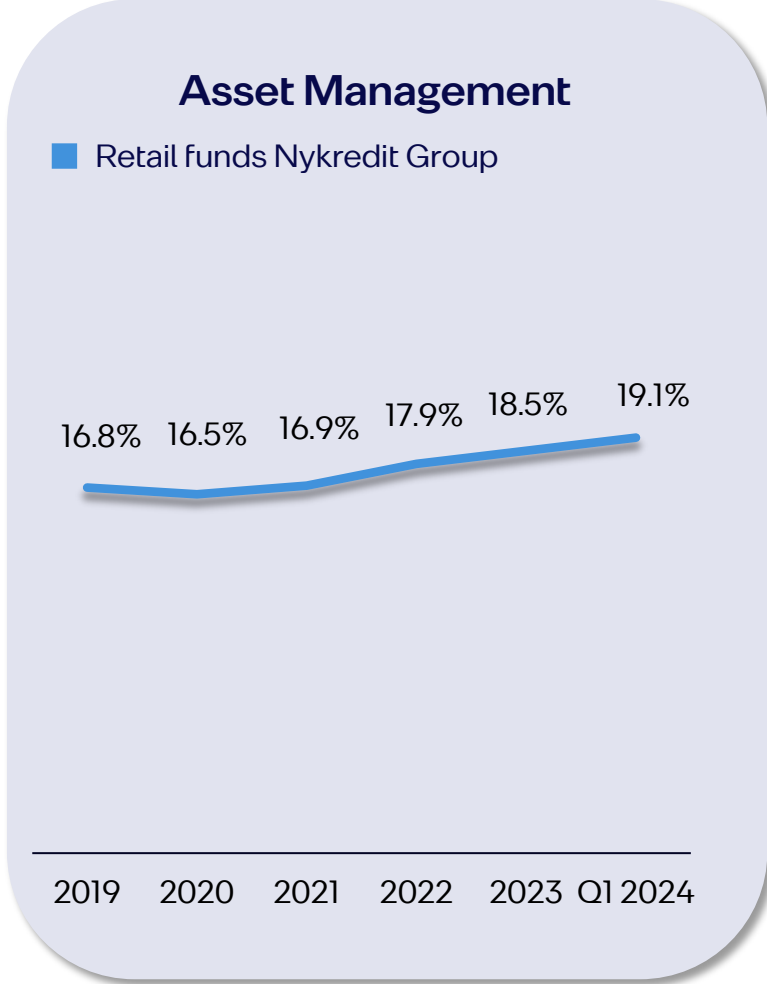
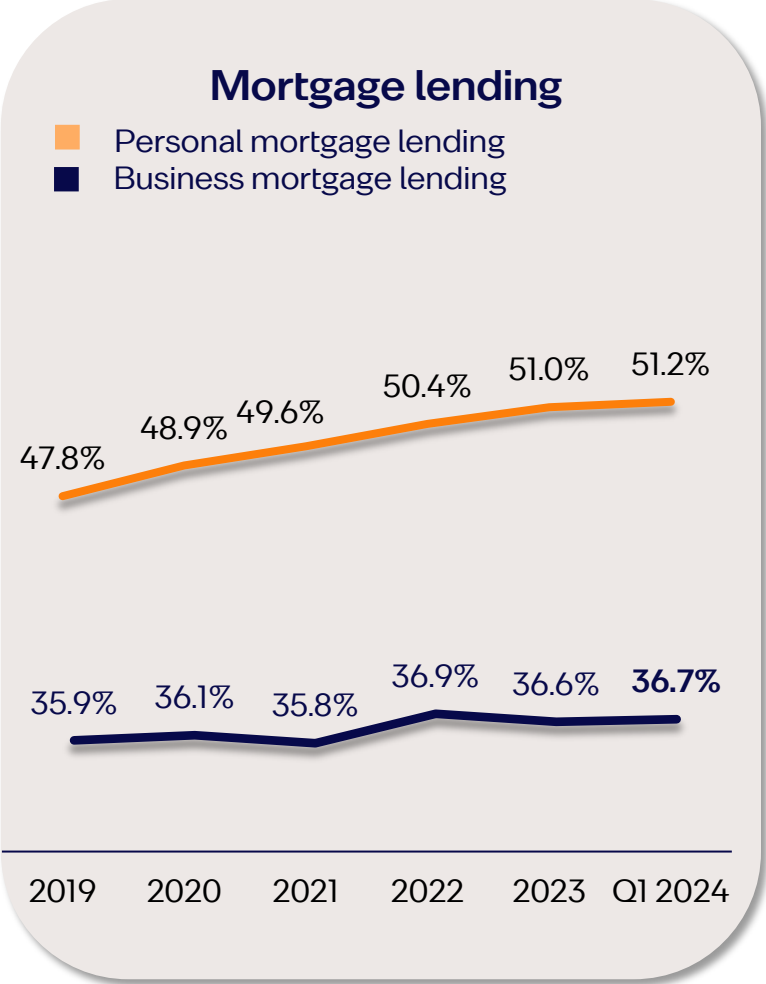
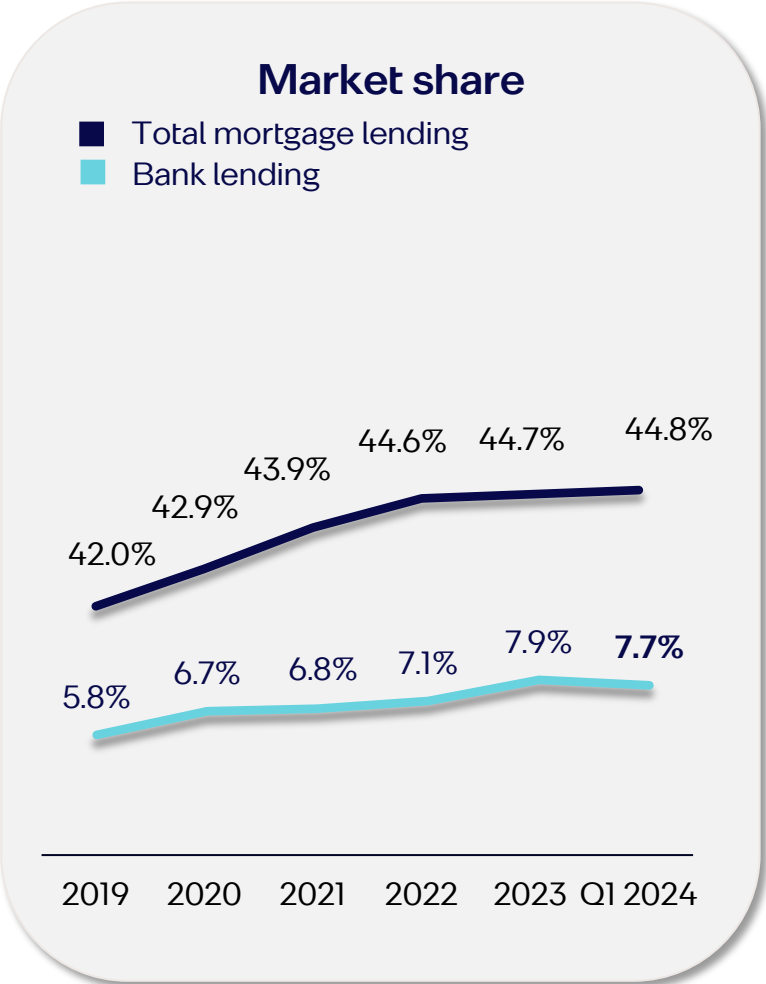
Core income composition



Volume growth in all business areas, DKKbn, Q1 2024 vs Q1 2023



Nykredit strengthened its position across the board



Source: Investering Danmark

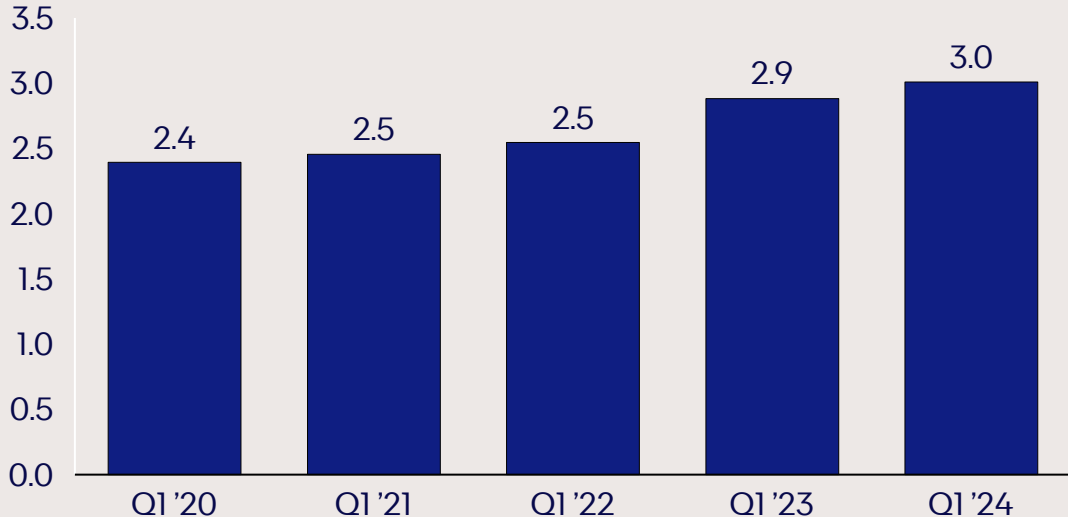
Group income statement

DKKm	Q1 2023	Q1 2024	Change	
Net interest income	2,883	3,011	4%	Driven by increased deposit margins due to higher interest rates as well as volume growth in bank and mortgage lending
Net fee income	680	728	7%	Up due to high activity level of large corporates as well as high funding income
Wealth management income	583	668	15%	Increased due to higher AuM driven by positive value adjustments and inflow of new funds
Customer benefits and capitalisation costs	344	462	35%	Positively impacted by interest on equity which offsets interest expenses on bail-inable debt
Trading and Investment portfolio	700	1,143	63%	Increased due to positive value adjustments of strategic bank equities as well as spread tightening of Danish covered bonds
Total income	5,189	6,012	16%	
Costs	1,638	1,647	1%	Up, driven by increasing costs of payroll and general price growth due to inflation
Impairment charges	-34	-53	58%	Reversal of impairment charges, as underlying credit quality remains strong
Legacy derivatives	-11	52		Positive value adjustments in Q1 2024 due to higher interest rates
Profit before tax	3,574	4,470	25%	
Profit after tax	2,799	3,544	27%	Full-year guidance revised upwards to DKK 10.5 – 11.5bn

Growth in NII driven by higher interest rates and volume growth

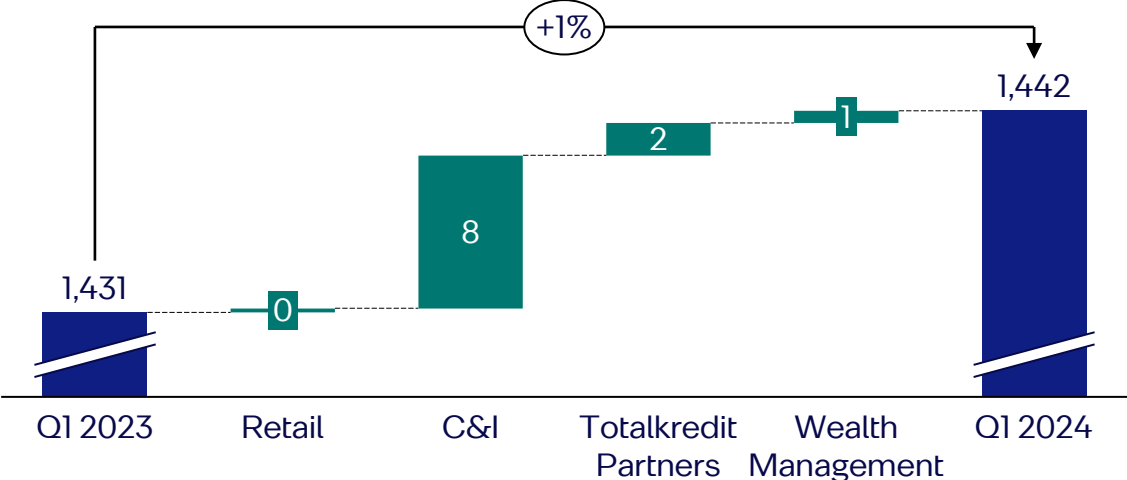
- NII positively impacted by increasing deposit margins due to higher interest rates
- Consistent growth in NII from higher loan volumes
- NII sensitivity lower than peers as mortgage lending makes up 93% of Nykredit's balance sheet

Net Interest Income, DKKbn

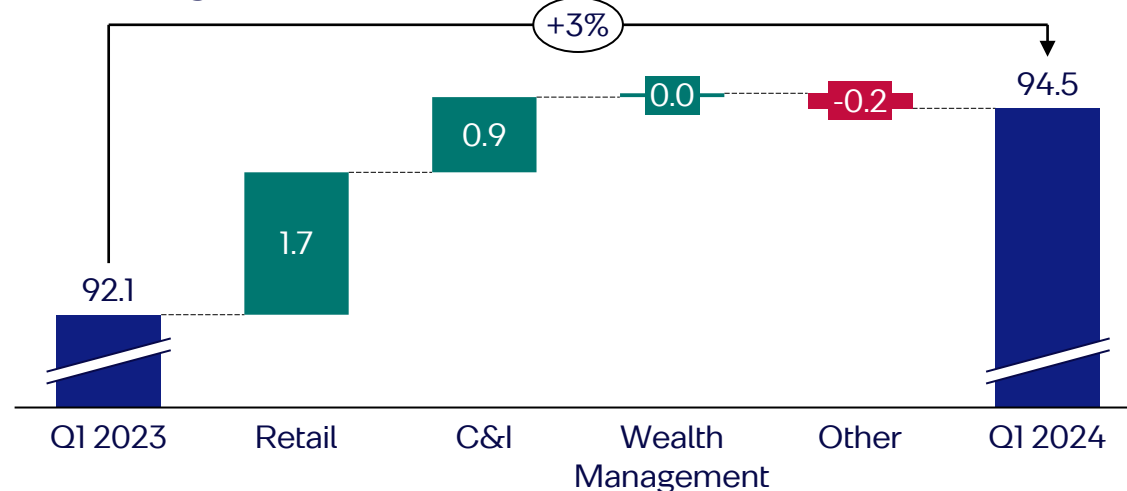


* Note: Nominal values

Mortgage lending, DKKbn*



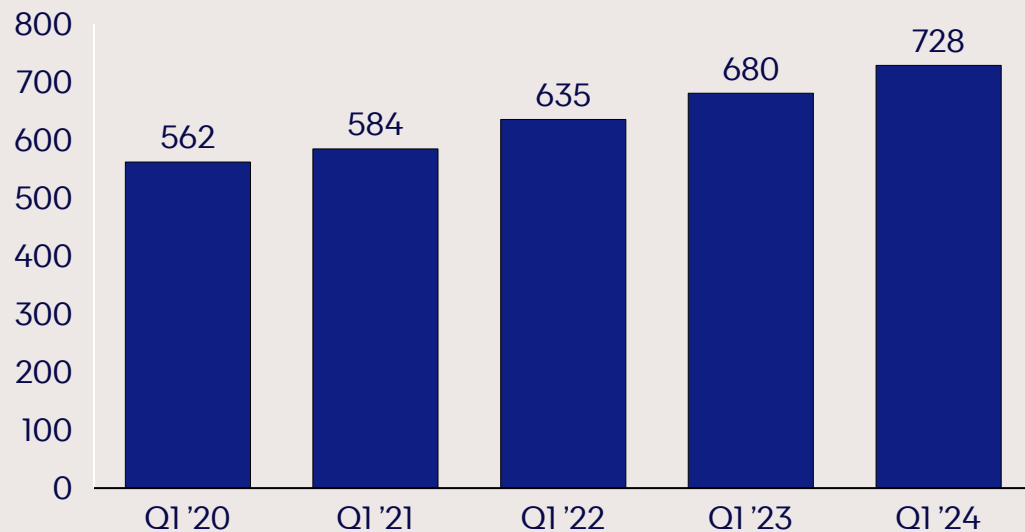
Bank lending, DKKbn*



Solid Net Fee Income despite lower mortgage activity

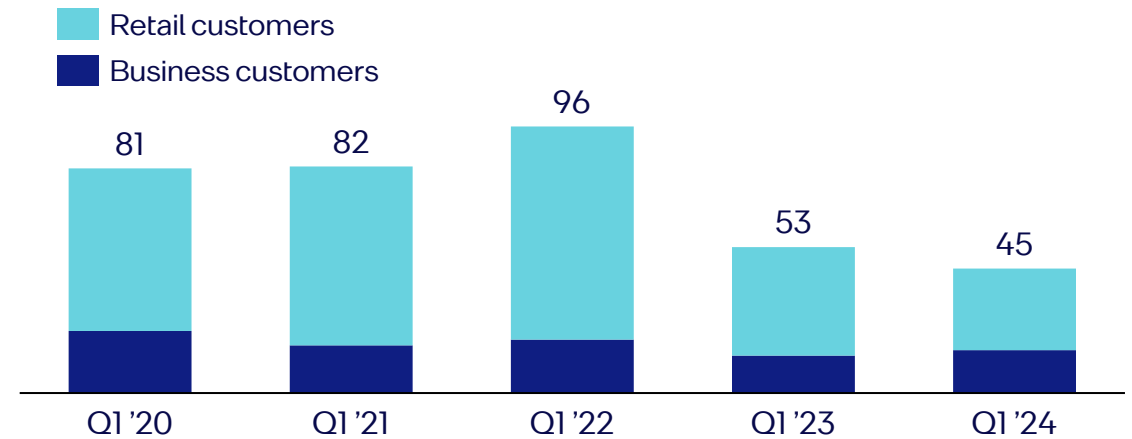
- Fee income up 7% driven by high bank lending activity and funding income
- NFI negatively impacted by a lower mortgage lending activity in the retail segment

Net Fee Income, DKKm

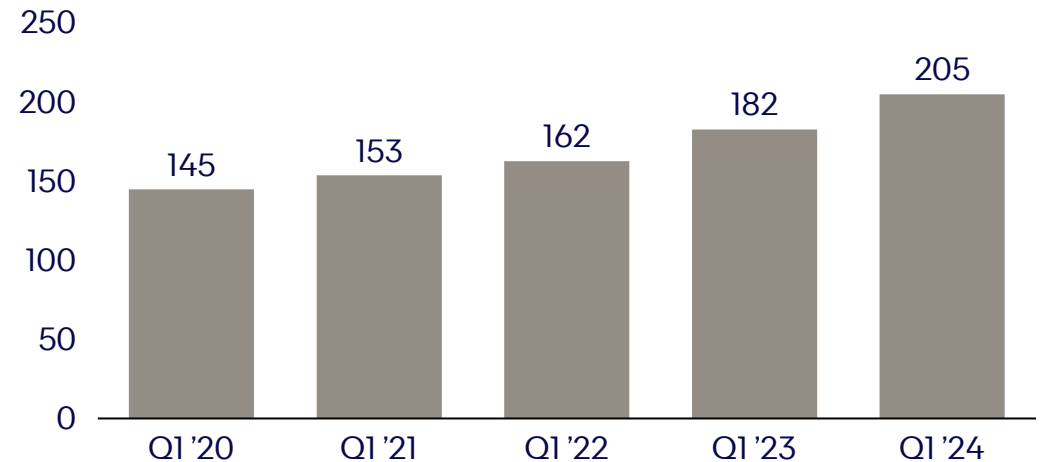


* Note: Nominal values

Gross mortgage lending, DKKbn*



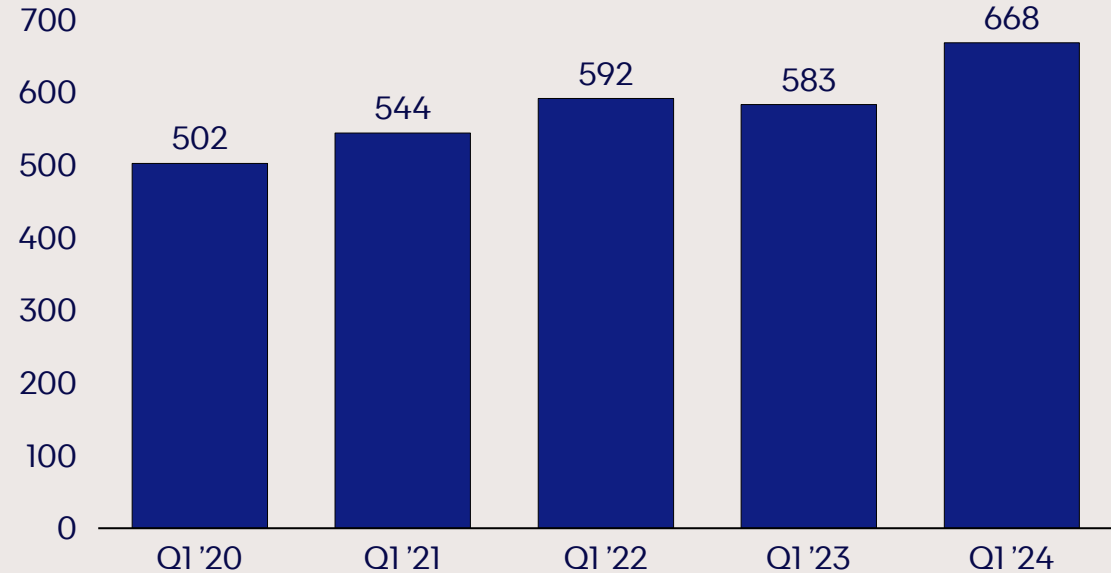
Net Fee Income from banking activities, DKKm



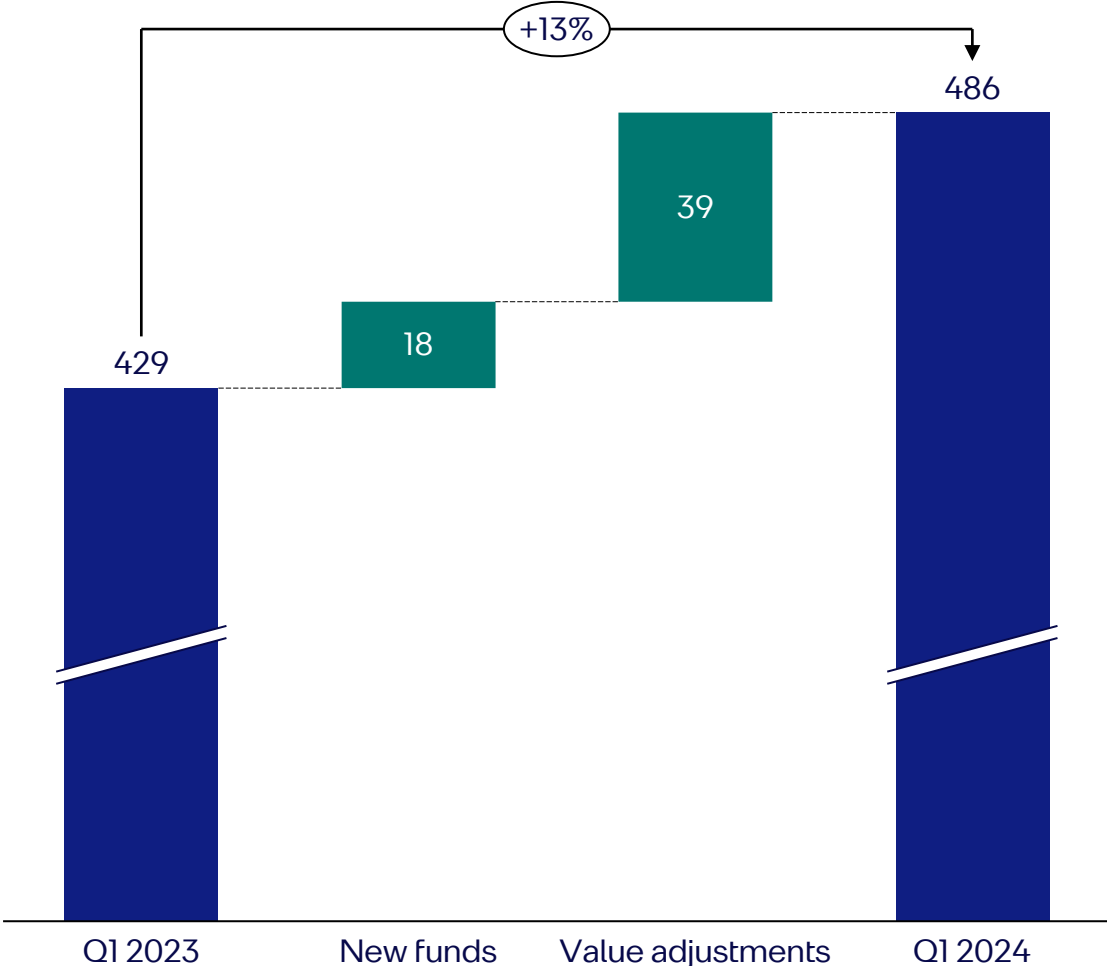
Strong growth in Wealth Management Income

- Income growth of 15% driven by Assets under Management
- AuM up 13% since Q1 2023, driven by positive value adjustments as well as inflow of new funds
- We benefit from scale in Wealth Management and continue to attract new funds

Wealth Management Income, DKKm



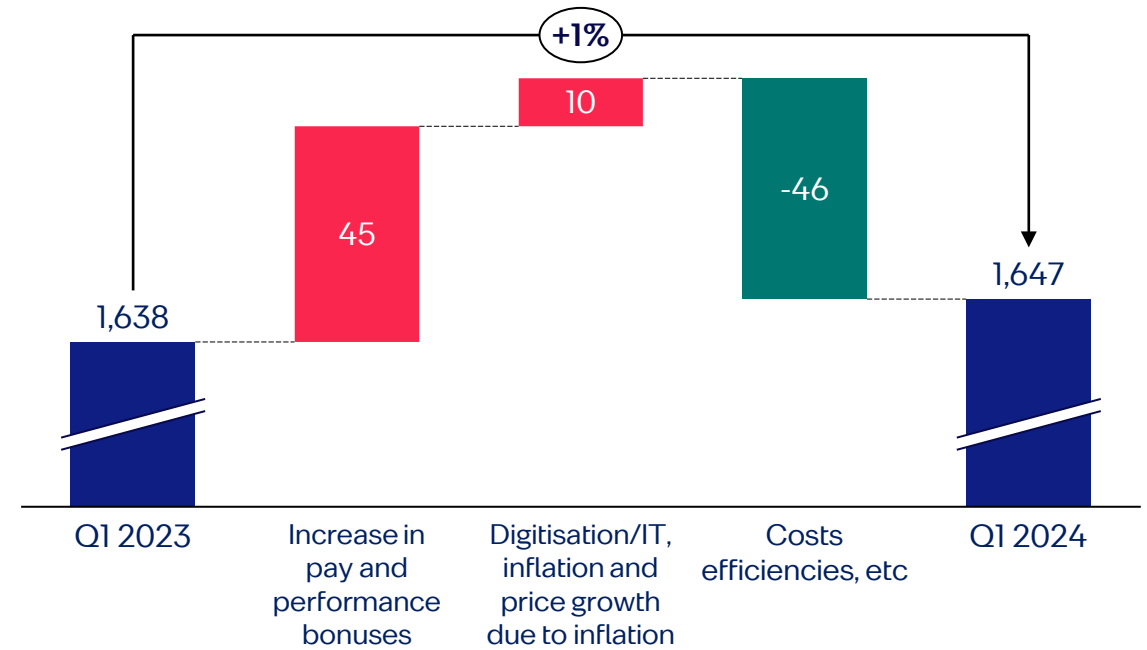
Assets under Management, DKKbn



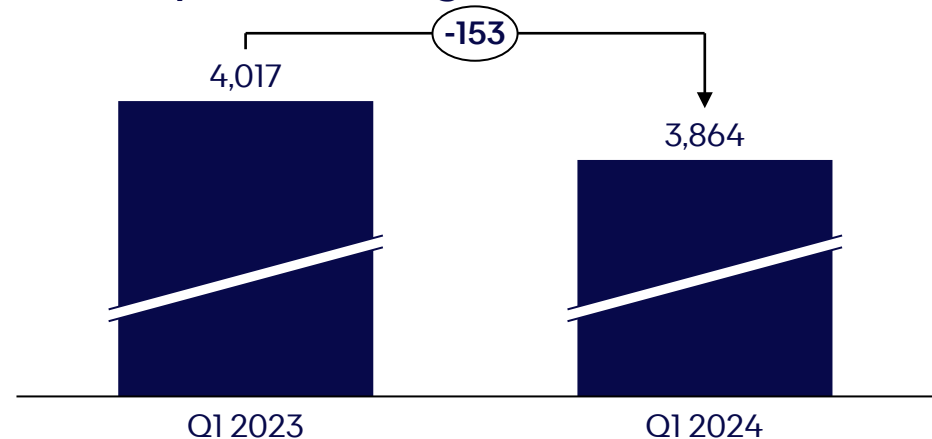
Best in class cost/income ratio of 27%

- Costs are up 1% or DKK 9m compared to Q1 2023
- The main driver was an increase in pay and performance bonuses amounting to DKK 45m
- DKK 10m relates to investments in digitisation/IT, price increases due to inflation and extraordinary costs
- The average headcount declined by 153 to 3,864 due to lower activities and efficiency initiatives
- Cost/income ratio of 27%, which is well below Nykredit's target of 40%

Change in costs from 2022 to 2023, DKKm



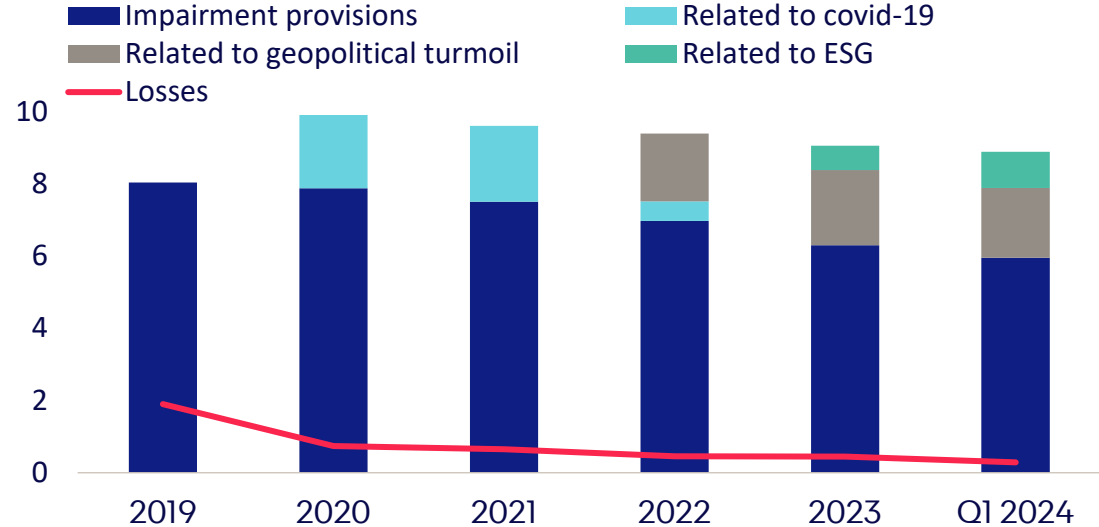
Development in average staff, FTE



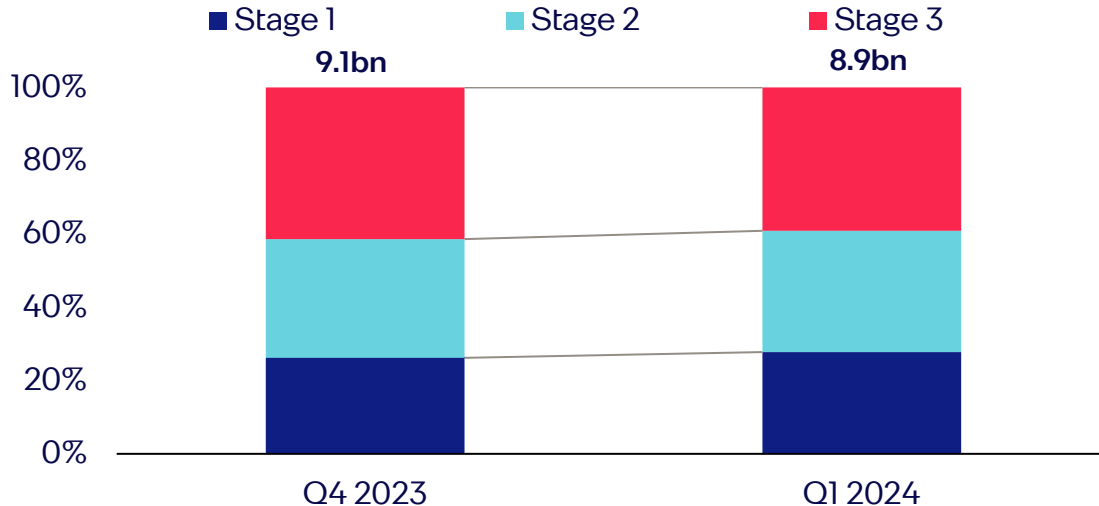
Strong buffer for potential headwind

- Virtually no losses incurred in the past 4 years
- Declining level of impairment provisions due to favourable economic conditions and improved credit quality
- Provisions of DKK 1.9bn for potential losses from geopolitical tensions
 - Strong focus on particularly exposed sectors and customers to ensure that signs of weakness are addressed in the credit process
- Provisions of DKK 1.0bn related to transitional risks from ESG
- Total loan impairment provisions amounted to DKK 8.9bn at Q1 2024

Nykredit Group total loan impairment provisions, DKKbn



Development in loan impairment provisions by stage, DKKbn



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- Nykredit Group business update
- **Corporate responsibility**
- Capital
- Danish housing market and credit performance
- Liquidity and funding



We want to be the customer-owned, responsible financial provider for people and businesses all over Denmark

DEVELOPMENT AND GROWTH THROUGHOUT DENMARK – AT ALL TIMES



A GREENER DENMARK



Greener owner-occupied dwellings



Greener real estate



Greener agriculture



Greener businesses



Sustainable investments

RESPONSIBLE BUSINESS PRACTICES



Responsible business conduct



Initiatives to combat financial crime



Personal data, IT security and data ethics



A greener Nykredit



Responsible procurement









People



Diversity and inclusion

As the first Nordic bank, Nykredit achieves SBTi approval of climate targets

		Nykredit Group's climate targets					
		Net zero by 2050					
Emissions target for 2030	SBTi-approved	 Owner-occupied dwellings 70% emissions reduction (kgCO ₂ e/m ² /year)	 Real estate Housing: 70% emissions reduction Office and retail: 70% emissions reduction (kgCO ₂ e/m ² /year)	 Agriculture 45-55% emissions reduction (tCO ₂ e/DKKm)	 Businesses and Energy Maintaining emissions from electricity and heat production below 10 (kgCO ₂ e/MWh)	 Investments 60% emissions reduction (tCO ₂ e/DKKm)	 Own operations 85% emissions reduction (CO ₂ e)
	Supporting targets	Oil- and gas-fired boilers 85% of owner-occupied dwellings will have a heat source other than oil- or gas-fired boilers by 2025 Electric cars 50% of new car loans must be for electric cars by 2023-2025	Transition plans Nykredit will set targets for the number of real estate customers and agricultural customers that must have green transition plans in place.	SBTi-approved Industry and transport 75% of emissions from large industrial and transport companies must be covered by SBTi-approved targets by 2028	SBTi-approved Equities and bonds All investments in equities and credit bonds must be, or be about to be, in line with the 1.75°C goal by 2028 Emissions from mortgage bonds must be reduced by 44% relative to the level in 2022 by 2028	Energy consumption and heating The total MWh consumption must be reduced by 25% relative to the 2017 level by end-2025. By 2030, no Nykredit location may be heated directly using fossil fuels.	

Nykredit's journey achieving SBTi approval of climate targets

- In June 2024, Nykredit's climate targets were approved by SBTi as the first SIFI in the Nordics
- Nykredit's SBTi journey started back in October 2023
- SBTi is the 'Gold Standard' in defining and promoting best practice in emission reduction and net-zero targets
 - In the SBTi validation process SBTi's experts assess whether the company has set climate goals in line with its standards and criterias
 - The process is long and complex for the participating companies



We make green choices easier and cheaper for our customers

Selected green initiatives at Nykredit



Greener owner-occupied dwellings

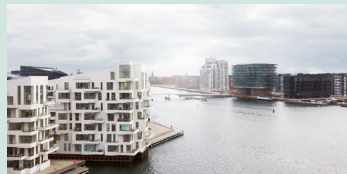
Contributions for replacement of oil- or natural gas-fired boilers and discount on heat pumps

Totalkredit's energy consumption calculator and energy check-up

Green savings account

Green home loans and heat source calculator

Green car loan



Greener properties

Green construction loans

Green mortgage loans

Interest discount on construction loans to public housing

Partnership with Rambøll

ESG Advisory



Greener agriculture

Green machinery leasing

ESGreen Tool (SEGES climate tool) and climate training programme

Fee-free withdrawal of land from agricultural use

Forest foundation (Nyskovfonden)



Greener businesses

Green construction loans

Green mortgage loans

ESG Advisory

Validated for SMEs

Mortgage financing of solar panels, wind turbines and infrastructure

Green transport leasing



Sustainable investments

Funds carrying the Nordic Swan Ecolabel exempt from trading commission

ESG reports to Danish institutional clients

Agenda

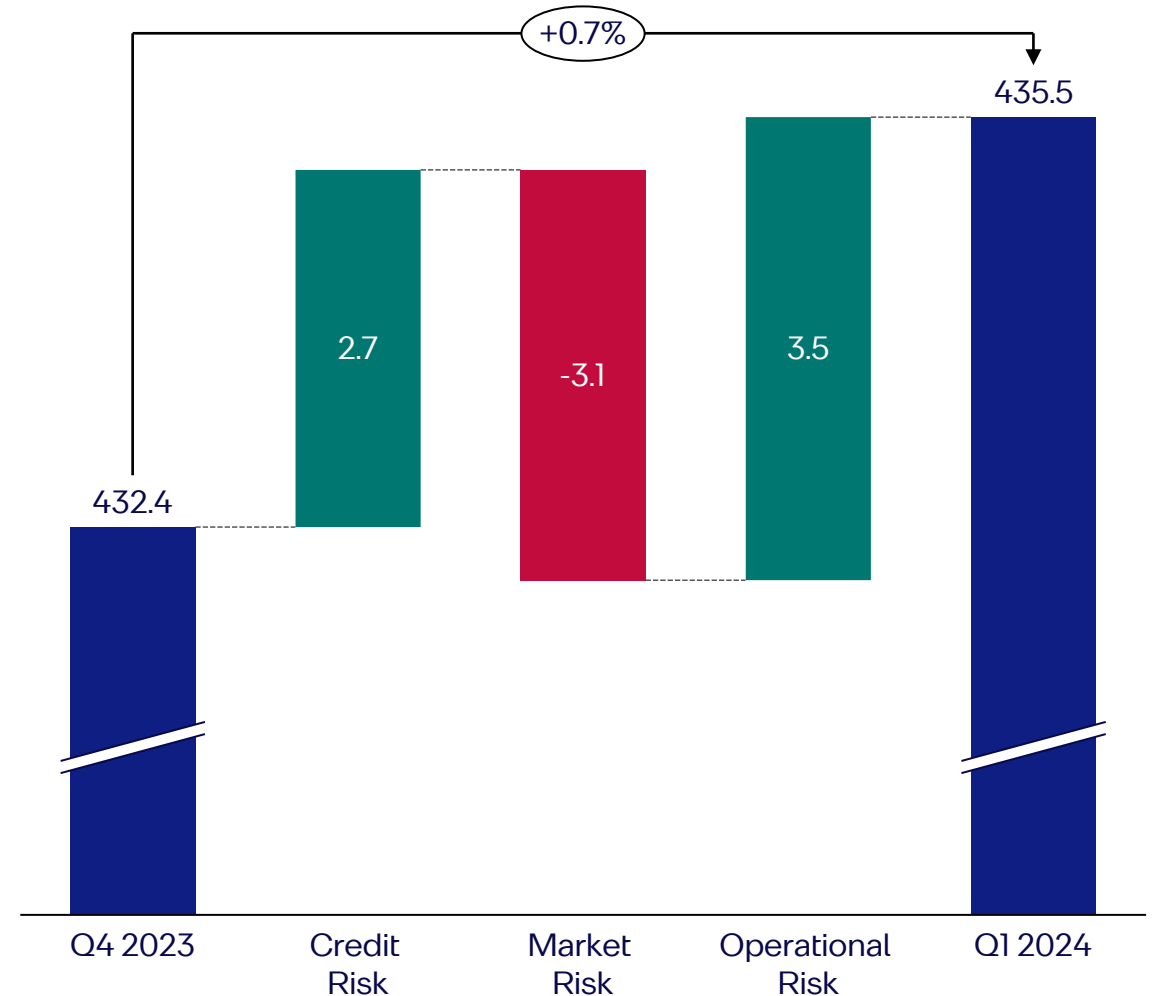
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Risk exposures stable in Q1 2024 but upward pressure remains

- In Q1 2024, the risk exposure amount increased by DKK 3.1bn or 0.7%
- Credit risk shows a net increase driven by a combination of higher lending volumes, higher risk weighting and continuing low arrears and overdrafts
- Market risk has declined due to reduced interest rate risk
- Going forward, Nykredit expects increasing risk exposures from credit risk due to both economic trends and Basel IV
- Any interest rate change will affect the risk exposure amount due to value-adjustment of outstanding mortgage debt

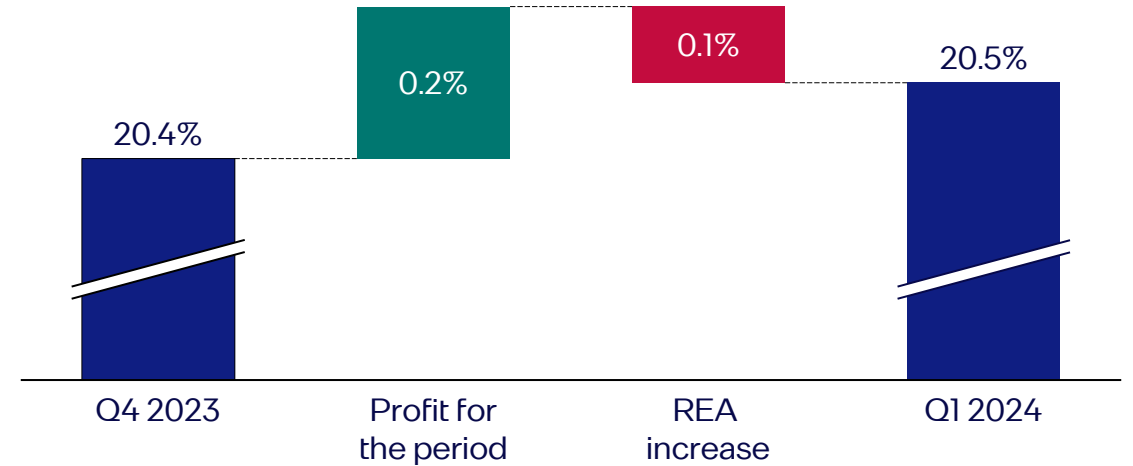
Risk Exposure Amount (REA), DKKbn



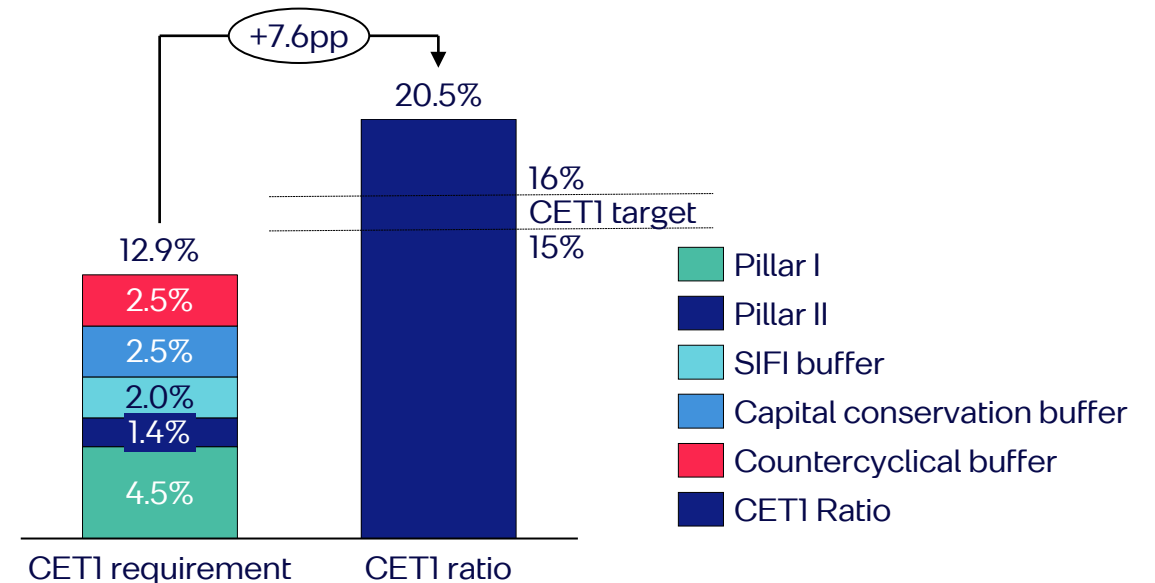
Very strong capitalisation

- The CET1 ratio of 20.5% is 500bps above Nykredit's policy target
 - In March 2024, Nykredit paid out a dividend of DKK 5.4bn corresponding to about 50% of profit after tax for 2023
 - Additional capital distribution may be considered later in the year
- The Danish Government has decided to activate a Systemic Risk Buffer for exposures to real estate companies from 30 June 2024
 - Nykredit expects the new buffer to increase the CET1 requirement by about 0.7%-points
- Nykredit's capital policy target includes a buffer of 400bps for a hard macro stress

CET1 capital ratio



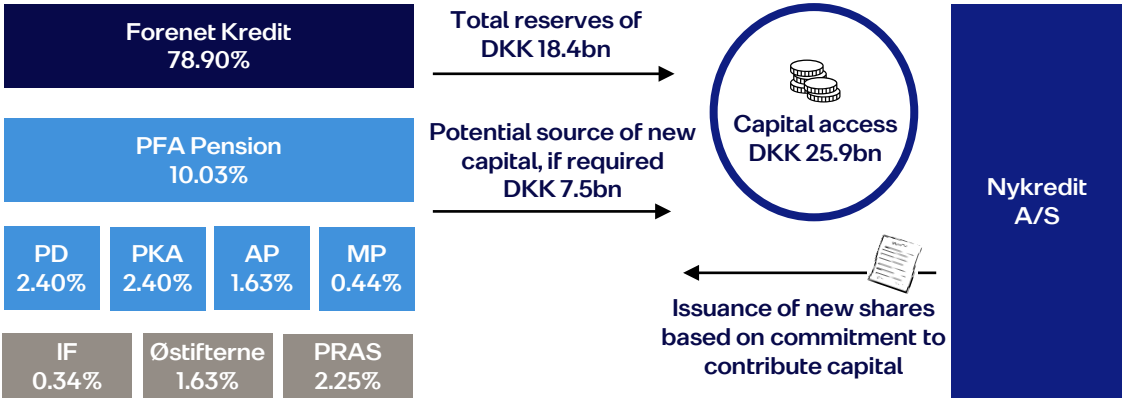
CET1 capital requirement and ratio (Q1 2024)



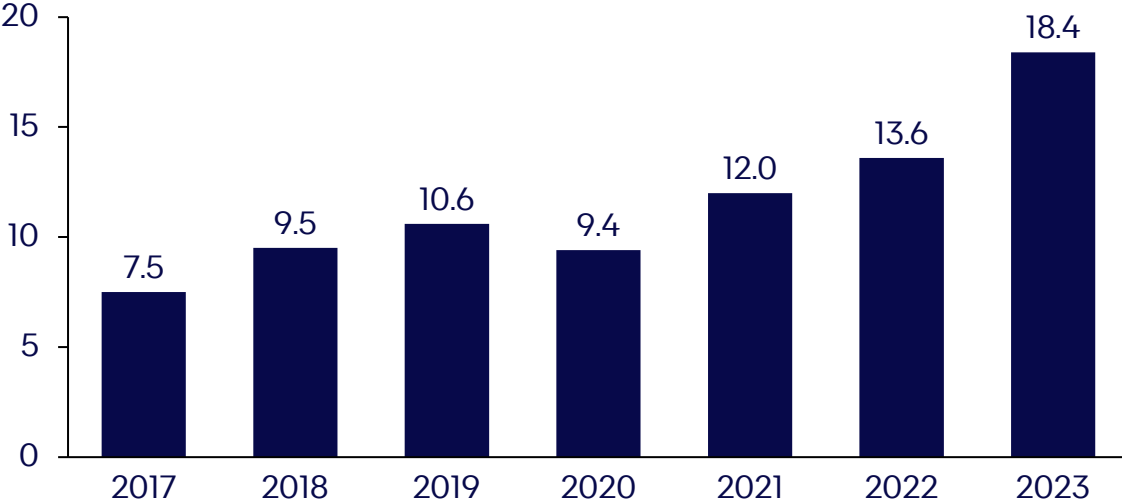
Nykredit has access to additional capital via shareholders

- Nykredit has access to additional capital from its owners of DKK 25.9bn ~ 5.9 percentage points
 - Mutual owner 'Forenet Kredit' (78.9%) has total reserves of DKK 18.4bn and is committed to support Nykredit
 - Five Danish pension funds (16.9%) have committed to contributing capital if needed, in total DKK 7.5bn

Ownership structure and capital access (end-2023)



Total reserves of Forenet Kredit (DKKbn)



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- **Danish housing market and credit performance**
- Liquidity and funding

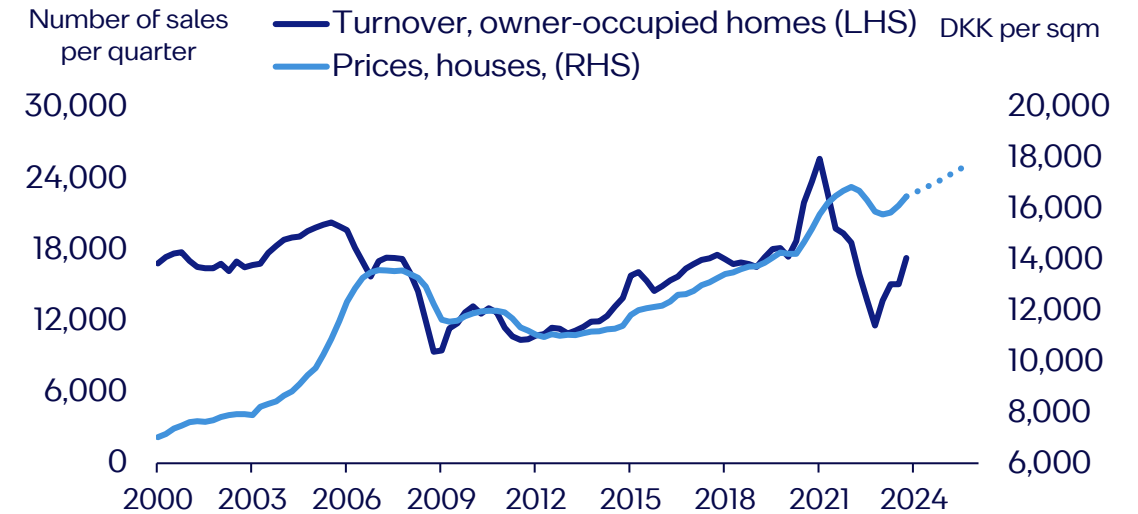


Sound Danish housing market

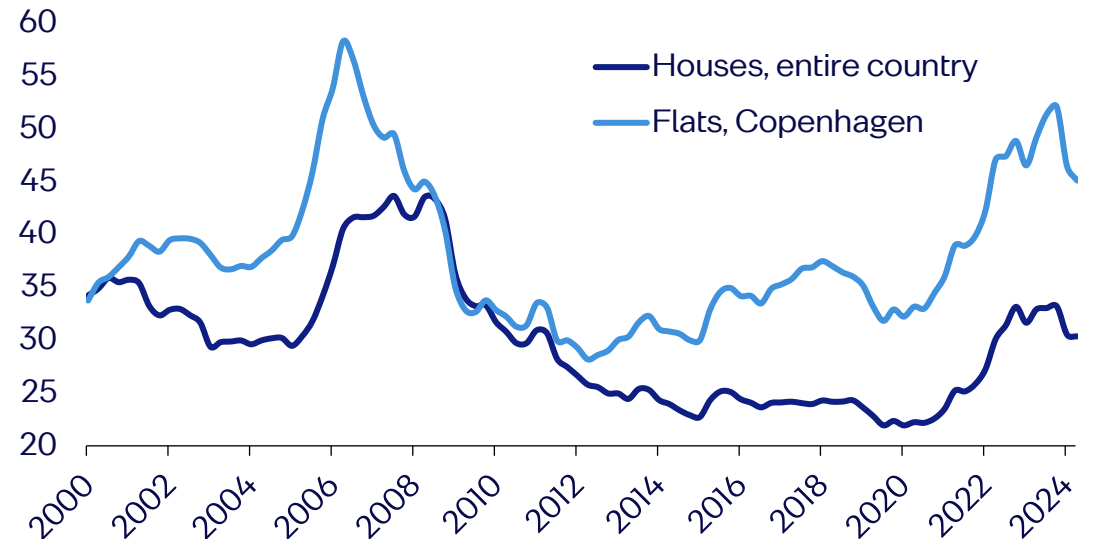
- Danish house prices increased in the first quarter of 2024
- House prices are up approx. 5% since end-2022
- Sales activity has improved and is back at pre-covid level
- Nykredit expects national house prices to increase in the coming years, with around 4% in 2024 and 2025 respectively
- Nykredit expects national owner-occupied flat prices to decrease due to the new housing taxes
- Despite higher household income, the housing burden remains at a relatively high level due to the high interest rates

Source: Macrobond, Statistics Denmark, Boligsiden and Nykredit, *Seasonally adjusted

No, of home sales per quarter* and YoY price development



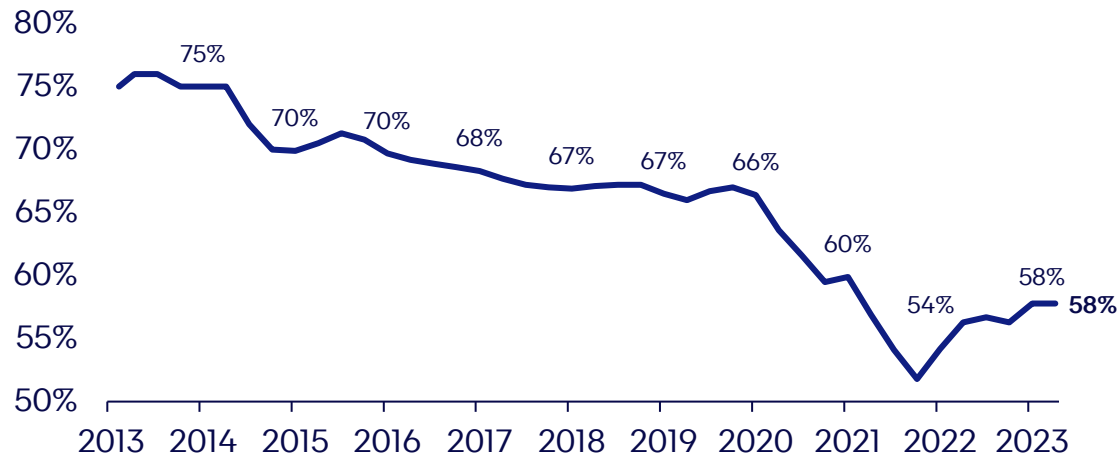
Housing burden, % of disposable income



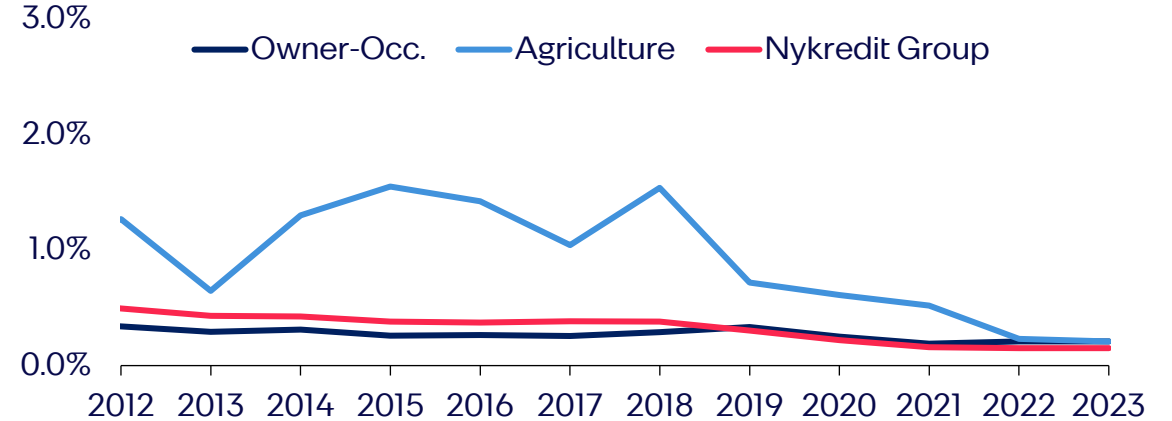
Credit quality remains strong

- Unemployment and property prices are key drivers of Nykredit's credit risk
 - The unemployment rate remains very low at 2.9% in May 2024
 - Most Danish households are still very robust with large accumulated savings
- Some commercial customers in certain sectors might be challenged

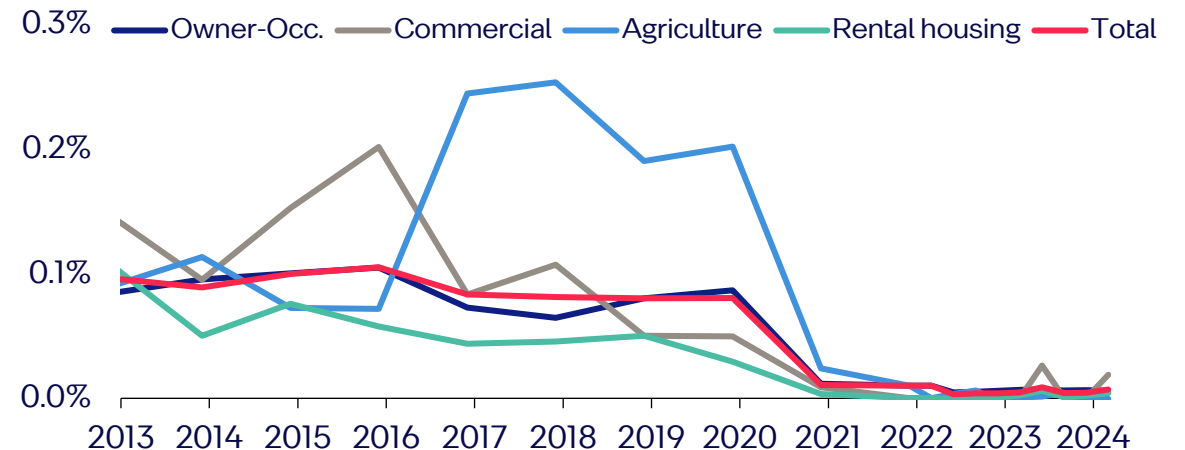
Average LTV, private residential properties



75-day mortgage arrears to latest term



Incurred losses as a % of debt



93% of Nykredit's total lending is secured by mortgages



Credit exposure dominated by low-risk mortgage lending to residential properties in Denmark

Bank and mortgage lending to business customers has increased, driven by customers with high ratings



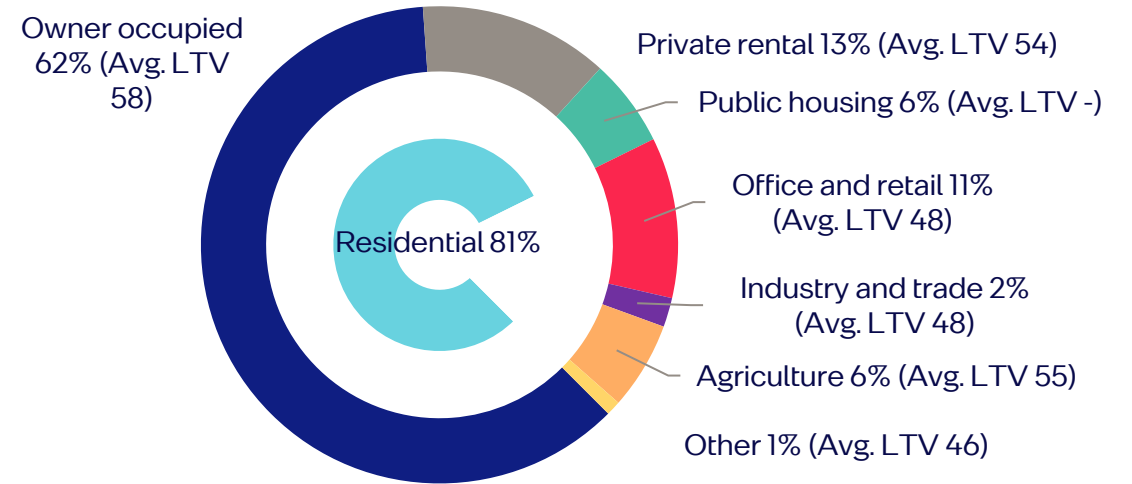
Some sectors within commercial real estate are particularly exposed to higher inflation, supply chain challenges and increasing interest rates



Strong focus on customers' solvency ratio, debt service and interest rate sensitivity

LTV levels remain low and have declined over the past years

Mortgage lending by property type



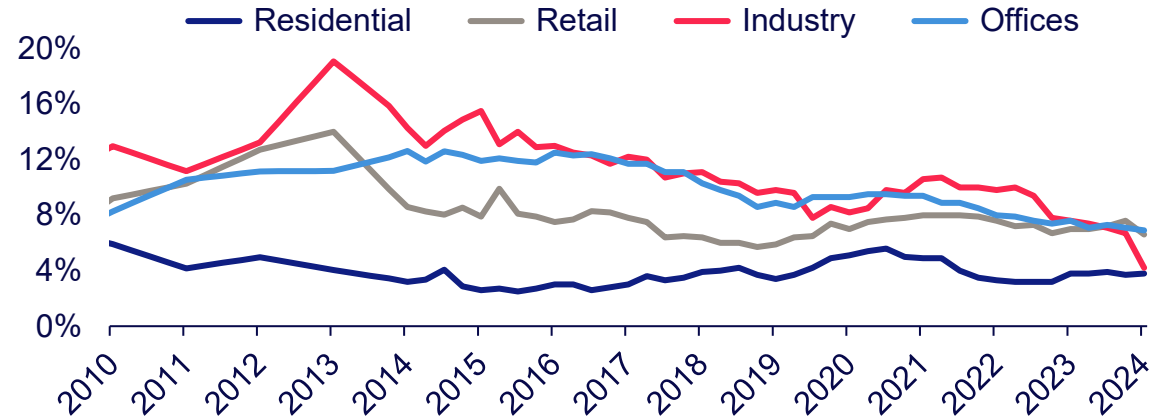
Average LTVs by business sectors

	2019	Q1/2024
Private rental	62%	54%
Office and retail	53%	48%
Industry and trade	46%	48%
Agriculture	62%	55%

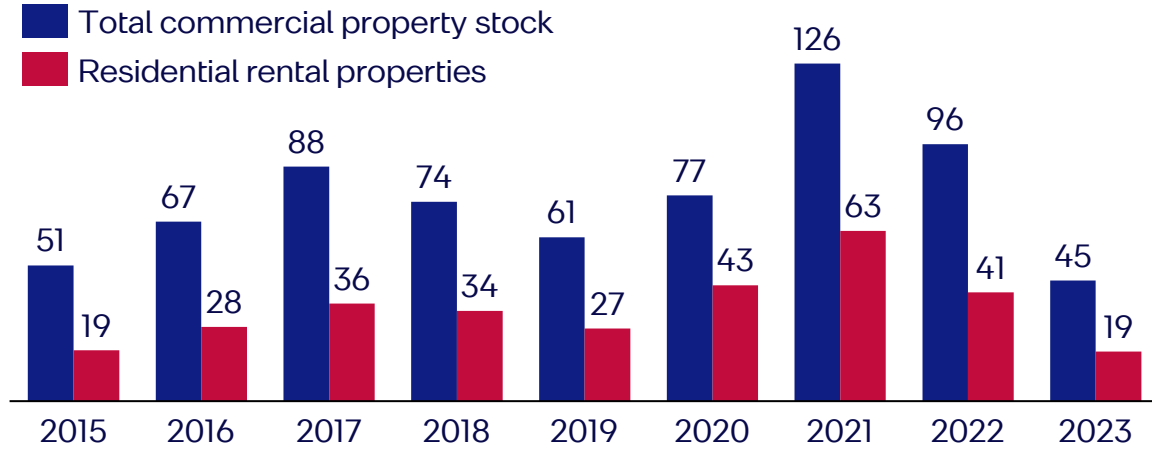
High demand supports vacancy rates on CRE, despite low turnover

- Vacancy rates on commercial properties remain low
- Low office vacancy rate caused by strong demand driven by high economic activity
- Low industrial/logistics vacancy rate due to limited newbuilding and strong household spending
- In 2023, transaction volumes in the market for commercial real estate were low
- In the short term, we do not expect a boom in transaction volumes in the market for commercial properties

Vacancy rates in Denmark, %



Transaction volumes commercial properties in Denmark, DKKbn



Source: Ejendom Danmark and ReData

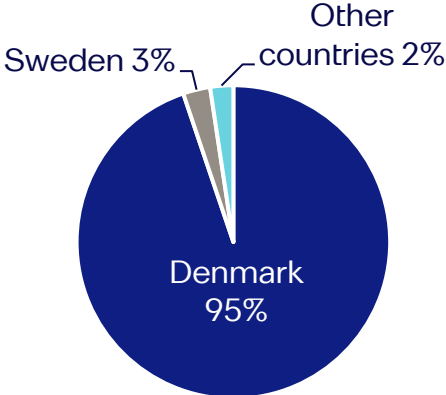
Outlook for the Swedish real estate market has improved

Expectations of lower interest rates supports the outlook for the Swedish economy and real estate market

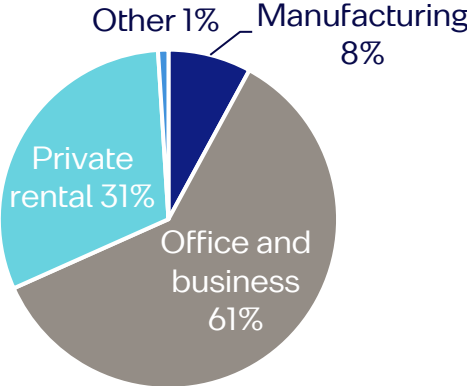
In recent years, Nykredit has sharpened its focus and approach to financing in Sweden:

- Virtually all exposures are mortgage lending secured by real estate
- Geographical concentration around the three largest cities
- Credit quality remains strong despite deteriorating property market and macroeconomic outlook
- Nykredit is focused on mitigating refinancing risks
- Nykredit has been active in Sweden for more than 20 years and never experienced any loan losses

Lending in Sweden amounts to 3% of total mortgage lending



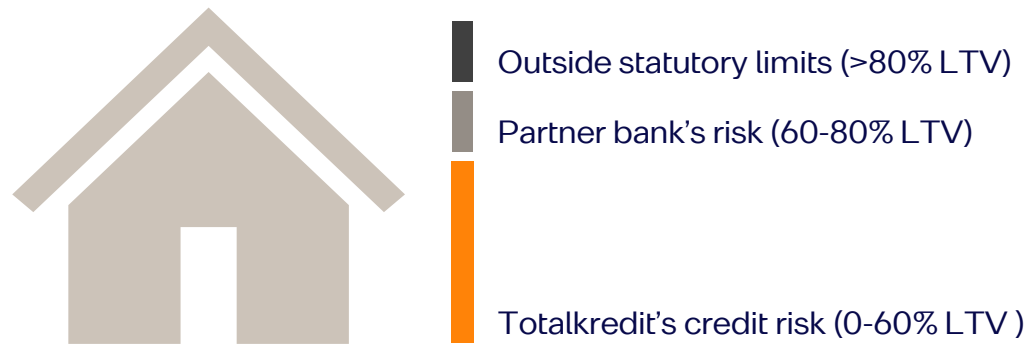
Swedish mortgage loan portfolio



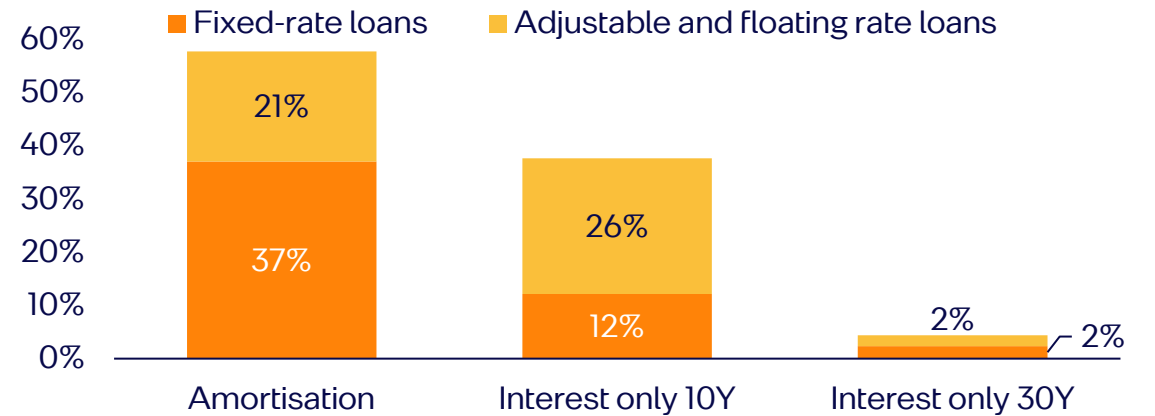
Danish homeowners are resilient

- Homeowners having variable-rate loans and high LTVs are most vulnerable to higher interest rates and property price declines
- Fixed-rate loans and amortisation dominates lending in Totalkredit which protects borrowers against increasing interest rates and secures home equity
- LTV ratios for mortgage debt remain at a low level

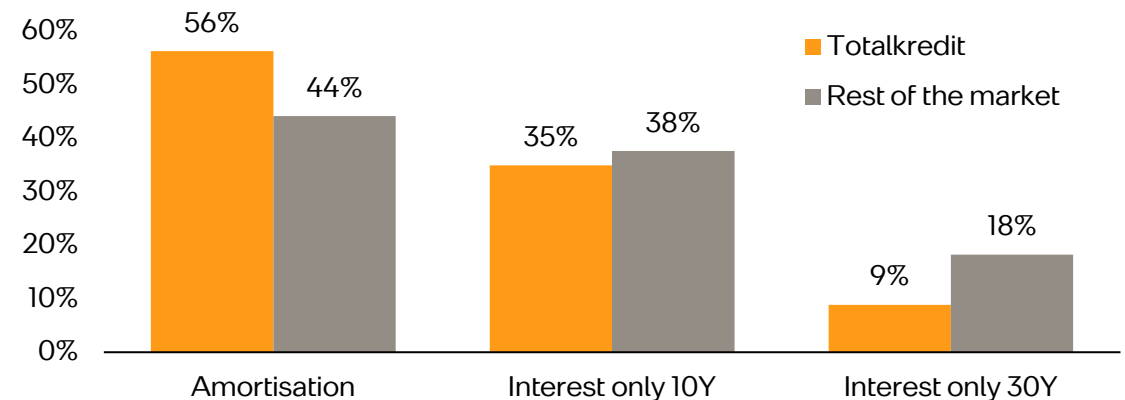
Credit risk above 60% LTV is covered by the partner bank



Outstanding mortgage loans in Totalkredit, end-2023



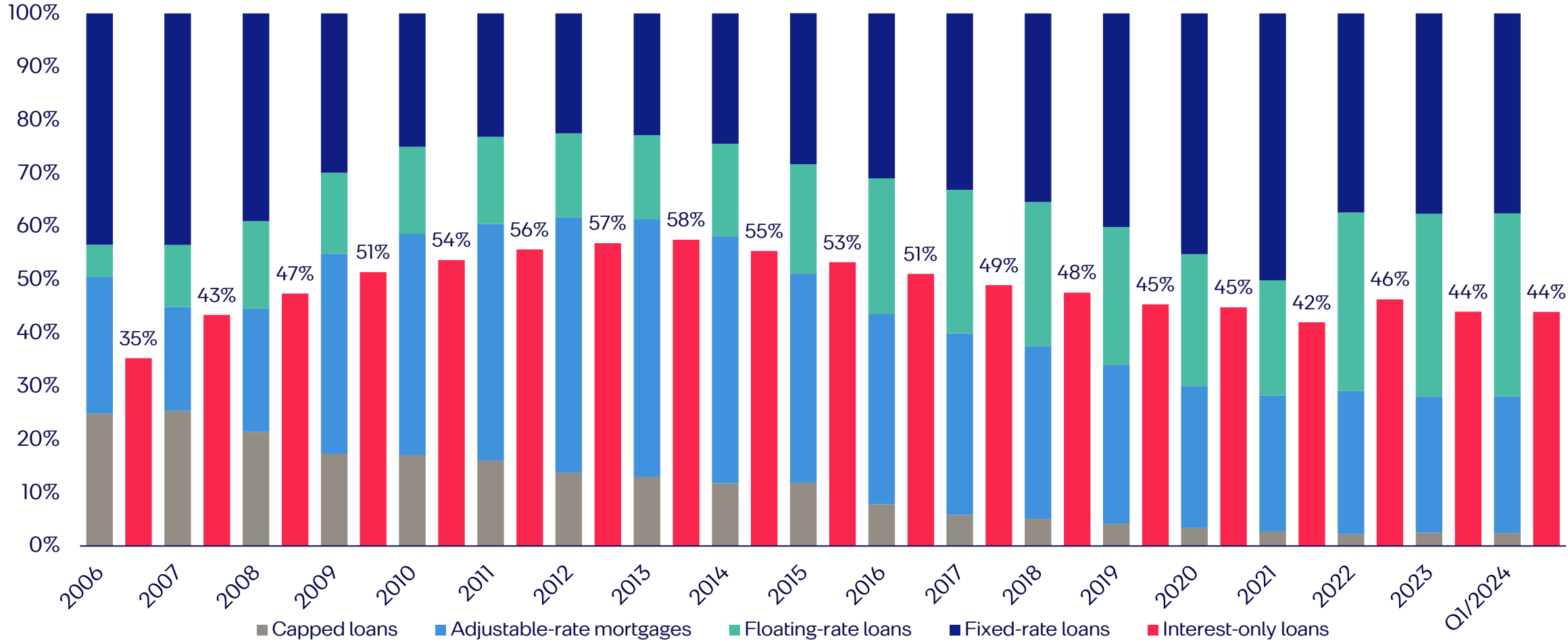
Share of issued fixed-rate mortgage bonds*



*Issued after 1. September 2020

Change in customer's loan preferences

Mortgage stock by loan type



Macroprudential measures in Denmark

Guidelines from the Danish FSA

- Restrictions on new lending for households:
 - opting for variable-rate loans and interest-only loans
 - with debt-to-income ratio in excess of 4
 - owning multiple homes
 - with disposable income below a threshold
 - with LTV above 60%
- Restrictions for rental properties and project development:
 - The property must generate positive liquidity
 - Capacity to withstand an increase in vacancy rates, lower rental income, higher interest rates etc
 - Require sufficient down payment
 - Credit institutions must be particularly cautious when financing new property projects

Regulatory capital buffers

- The countercyclical buffer (CCyB) is re-activated:
 - 2.5% from March 2023
- Systemic risk buffer (SyRB) :
 - Activation of a systemic risk buffer of 7% of exposures to real estate companies from 30 June 2024

Agenda

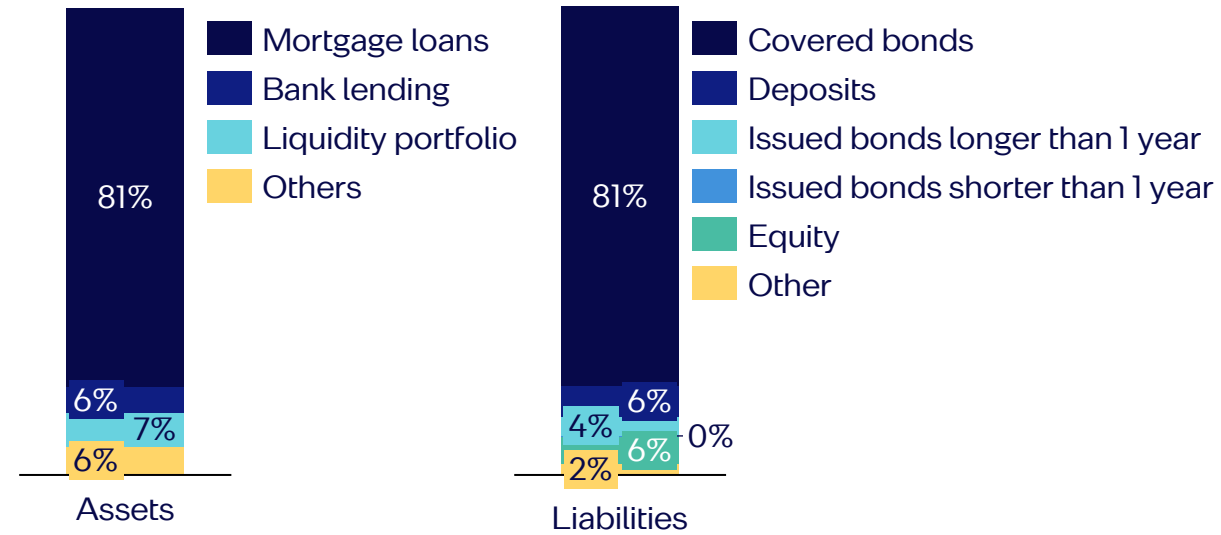
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- **Liquidity and funding**



Low ALM risk and resilient deposit base

- Nykredit's balance sheet is largely fully matched due to the pass-through mortgage structure in Denmark
- Remaining assets are primarily funded by stable long-term liabilities, equity and deposits
- Nykredit has a resilient deposit base
 - Deposits from full-service retail customers amount to approx. 60%
 - Approx 50% of deposits are covered by the deposit guarantee scheme
- Nykredit has substantial liquidity reserves as illustrated by the liquidity coverage ratio's

Nykredit's balance sheet is largely matched



Nykredit's Liquidity Coverage Ratios, %

	Q1 2024	2023
Nykredit Group	568	310
Nykredit Bank	217	191

Nykredit's Net Stable Funding Ratio, %

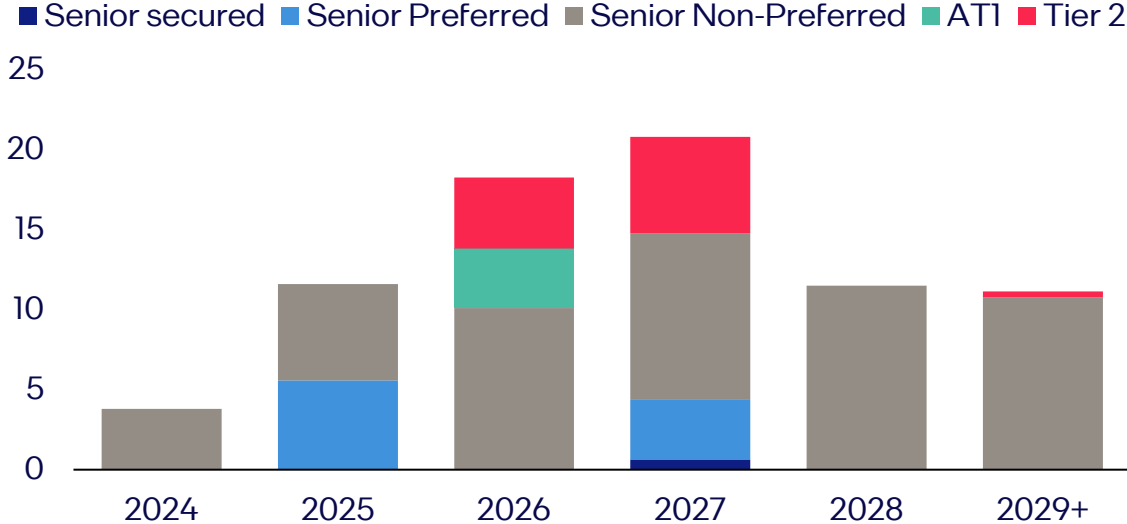
	Q1 2024	2023
Nykredit Group	156	147

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

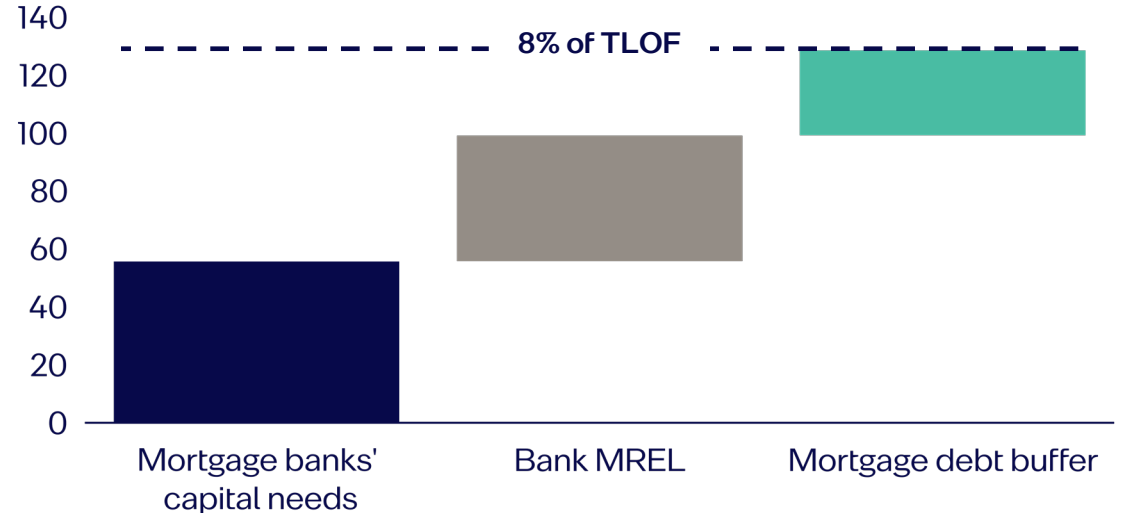
Funding needs driven by refinancing and REA growth

- The main driver of Nykredit's funding needs (excluding covered bonds) is the requirement to have sufficient regulatory bail-inable instruments
- The debt buffer of 2%, own funds and MREL eligible liabilities must amount to at least 8% of TLOF
- Due to higher expected REA, the total regulatory requirement may exceed 8% of TLOF
- In 2024, DKK 11bn has been issued in senior non-preferred
- Nykredit expects to issue up to DKK 5bn in senior debt - primarily in senior preferred format

Nykredit Group maturity profile, DKKbn



Regulatory requirement for bail-inable instruments






Nykredit's ratings

Nykredit's credit ratings

	S&P Global	Fitch Ratings
Covered bonds	AAA	-
Senior preferred debt	A+	A+
Short-term debt	A-1	F1
Issuer rating	A+	A
Outlook	Stable	Stable
Senior non-preferred	BBB+	A
Tier 2	BBB	BBB+
Additional Tier 1	BB+	BBB-

Nykredit's ESG ratings

	Score	Range
 MSCI	AAA	CCC-AAA
 SUSTAINALYTICS	10.7	100 - 0
 CDP	B	D- to A+



Source: Nykredit company reports

Appendix

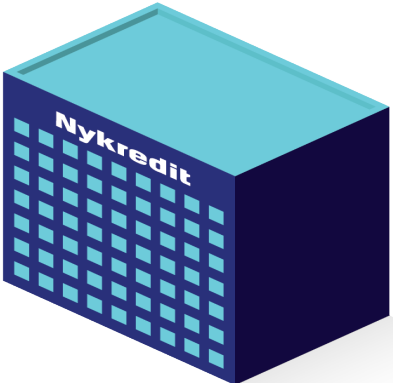


The principles of the Danish mortgage model

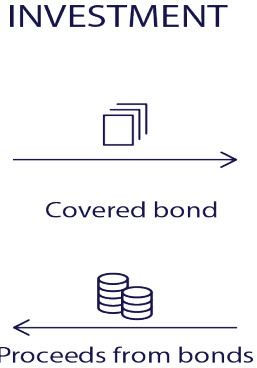
Mortgage origination



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MORTGAGE BANK

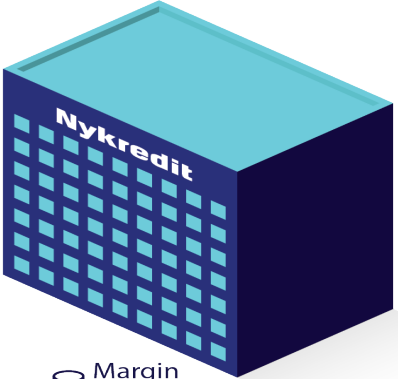
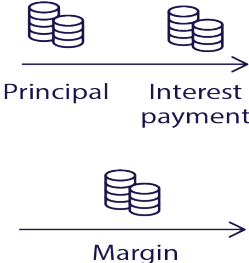


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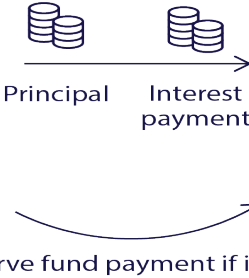
Payments



BORROWER



MORTGAGE BANK



INVESTOR

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