Nykredit

Nykredit Group

H1/2021 Earnings call

19 August 2021

Numbers relate to Nykredit Group

Agenda

1	**Highlights of H1/2021** CEO Michael Rasmussen
2	**Financial performance, credit and funding plans** CFO David Hellemann
3	**Q&A**

Nykredit H1 interim report 2021

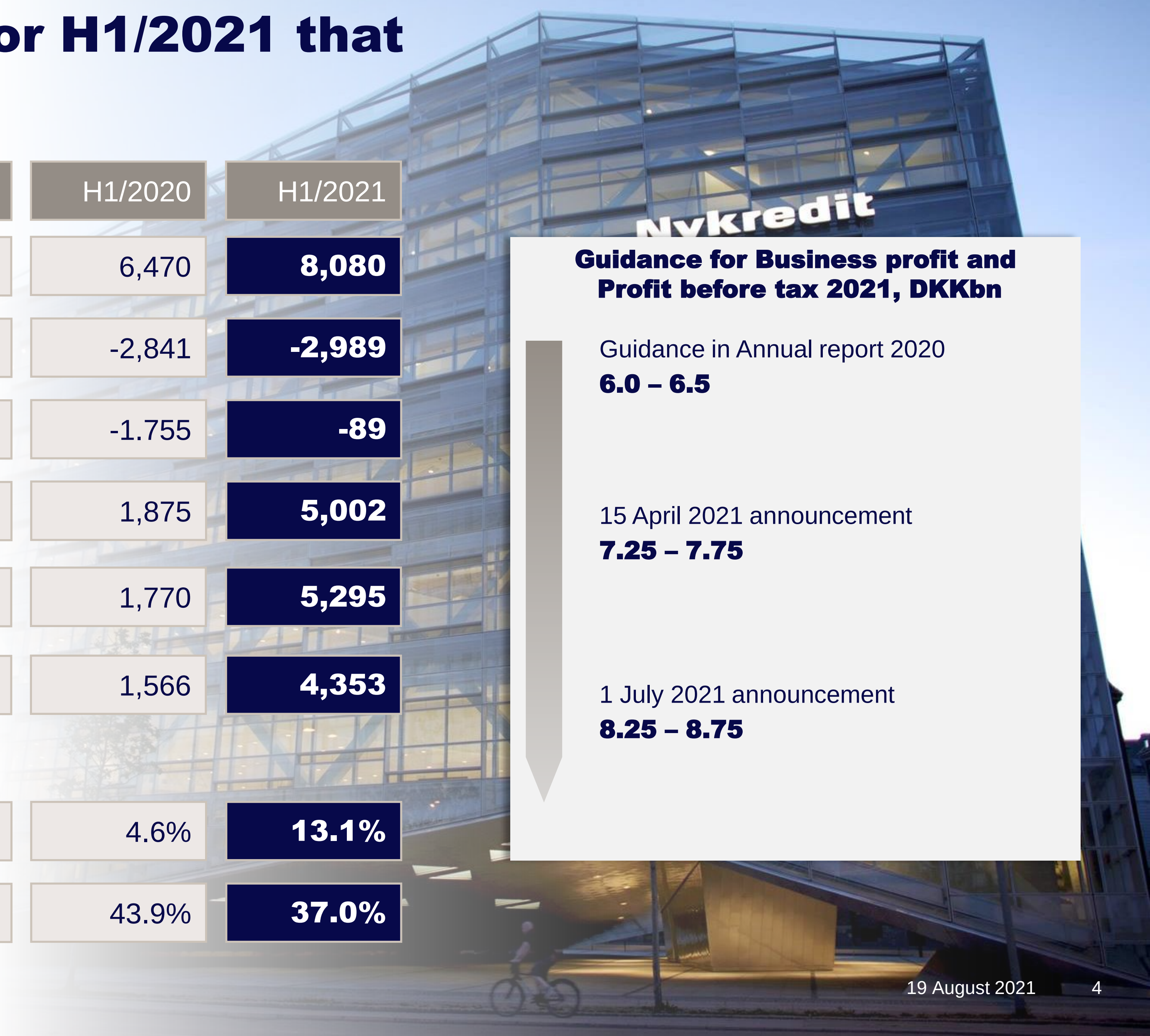
A very satisfactory result for H1/2021
Especially in light of the covid-19 pandemic
Business profit of DKK 5bn

We experience volume growth and customer inflow
In both Nykredit and Totalkredit

Strong capitalisation
CET1 ratio of 20.1% and good performance in EBA's stress test under very harsh assumptions

A very satisfactory result for H1/2021 that exceeds our expectations

DKKm	H1/2019	H1/2020	H1/2021
Income	7,492	6,470	**8,080**
Costs	-2,502	-2,841	**-2,989**
Impairment charges	-433	-1.755	**-89**
Business profit	4,557	1,875	**5,002**
Profit before tax	4,288	1,770	**5,295**
Net profit	3,606	1,566	**4,353**
ROAC after tax, % p.a.	12.4%	4.6%	**13.1%**
Cost:Income ratio	33.4%	43.9%	**37.0%**



Guidance for Business profit and Profit before tax 2021, DKKbn

Guidance in Annual report 2020
6.0 – 6.5

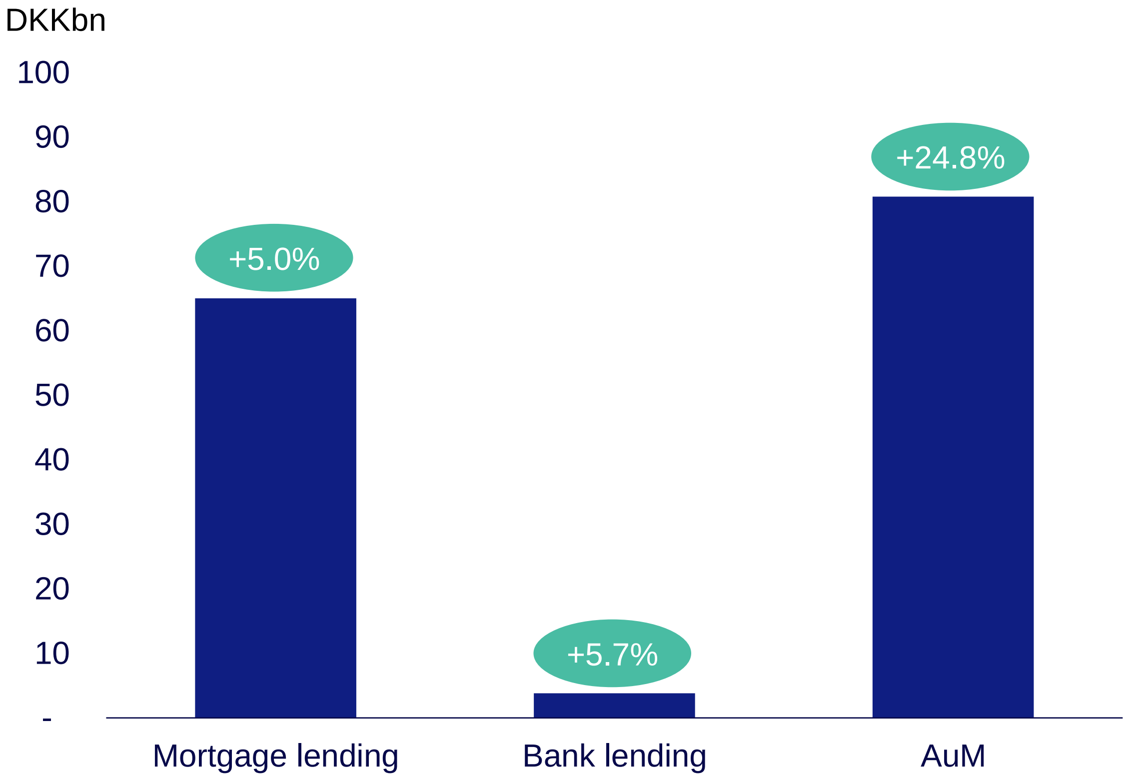
15 April 2021 announcement
7.25 – 7.75

1 July 2021 announcement
8.25 – 8.75

We experience volume growth and customer inflow

- Strong business performance with volume growth driven by:
  - Households in mortgage lending
  - Corporates & Institutions in bank lending
  - Inflow of new funds and value adjustments in Wealth Management
- Our customer benefits programmes help attract new business
- We remain vigilant on credit standards

Growth in all business areas since H1/2020

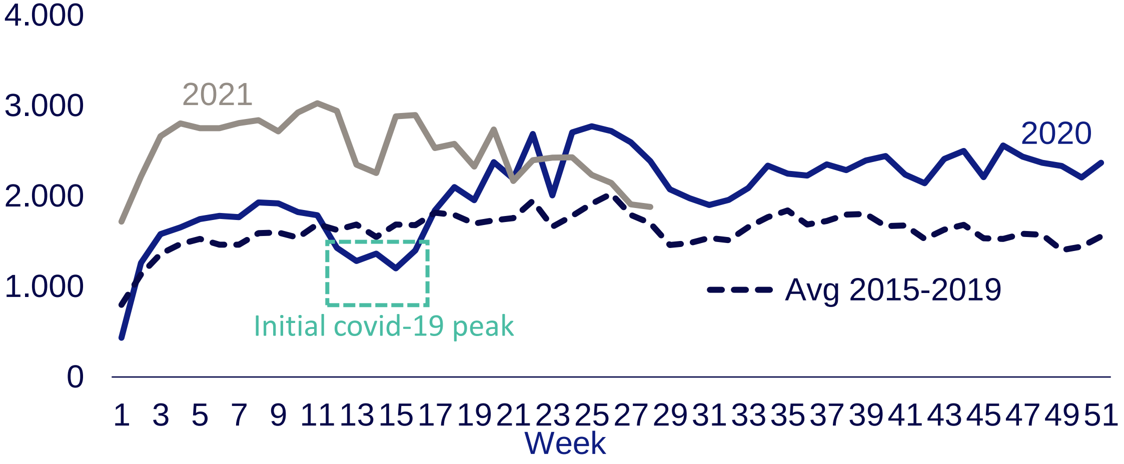


The strongest housing market in a decade

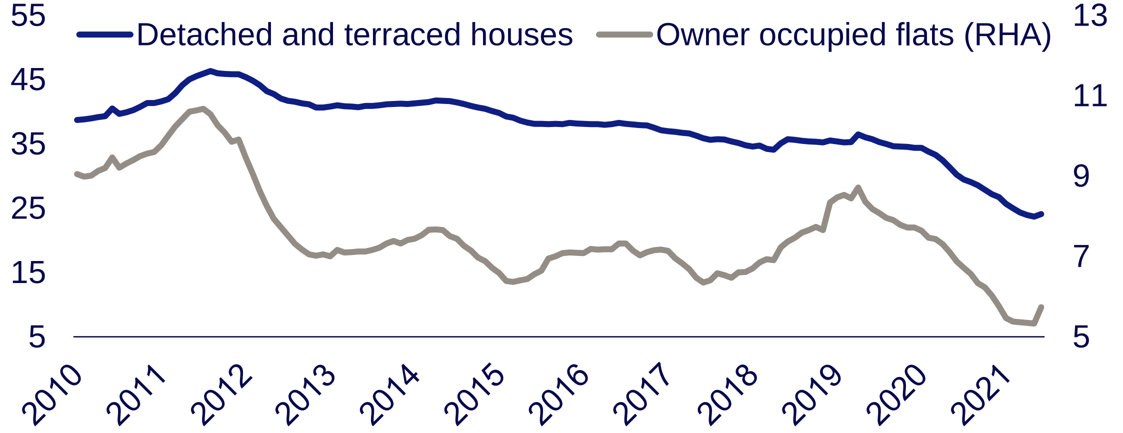
Turnover and prices went up in H1/2021

- Except for 6 weeks in the spring of 2020 Denmark has seen a strong housing market with record high turnover
- Property sales have declined to more normal levels in July 2021
- We see no increase in deviations from the FSA's best practice underwriting guidelines
- We forecast moderate price increases for owner-occupied homes for the remainder of 2021 and approx. 2 - 3% increase in 2022

Property sales per week



Number of properties for sale, 1,000s



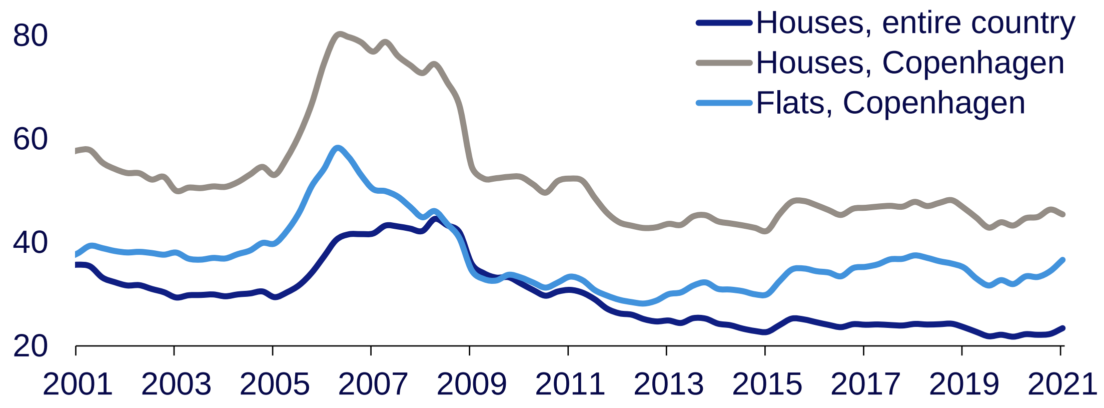
Source: Macrobond and Nykredit

Muted impact of the pandemic on the economy so far

Housing market valuations well supported by fundamentals

- Households have accumulated large savings during the pandemic as spending has been curbed
- Pay-out of frozen holiday allowance added to households' buffers
- High savings support the housing market where affordability remain very favorable – but there may be sub-markets that are heating up

Housing burden, % of disposable income



We see few signs of financial stress for our customers

- Danish households and businesses have generally weathered the pandemic well
- The unemployment rate is back down to pre-covid-19 levels
- Businesses are generally liquid due to government help and can service their debt
- But we expect to see credit losses as operating losses deplete equity and government support schemes are phased out

Household savings rate, % of disp. income

Source: Macrobond and Nykredit

Strong capitalisation makes Nykredit resilient to stress

Incremental available capital

- Nykredit's ownership structure with mutual Forenet Kredit owning 79% and 5 pension funds owning 17% in aggregate provides Nykredit with access to additional capital if required:
  - Forenet Kredit holds approx. DKK 9.1bn (~220bps of REA) of capital reserved for Nykredit
  - Pension funds have provided capital commitment of DKK 7.5bn (~180 bps of REA)

Good performance in EBA stress test under harsh assumptions

- EBA completed yet another very severe macro stress scenario for the Nordics
- According to the stress test Nykredit is sufficiently resilient to withstand such a scenario with a buffer of 3.1 pp to the legal CET1 requirement including buffers
- Results support Nykredit's current capital policy target that includes an incremental buffer for a hard macro stress on top of the capital buffers

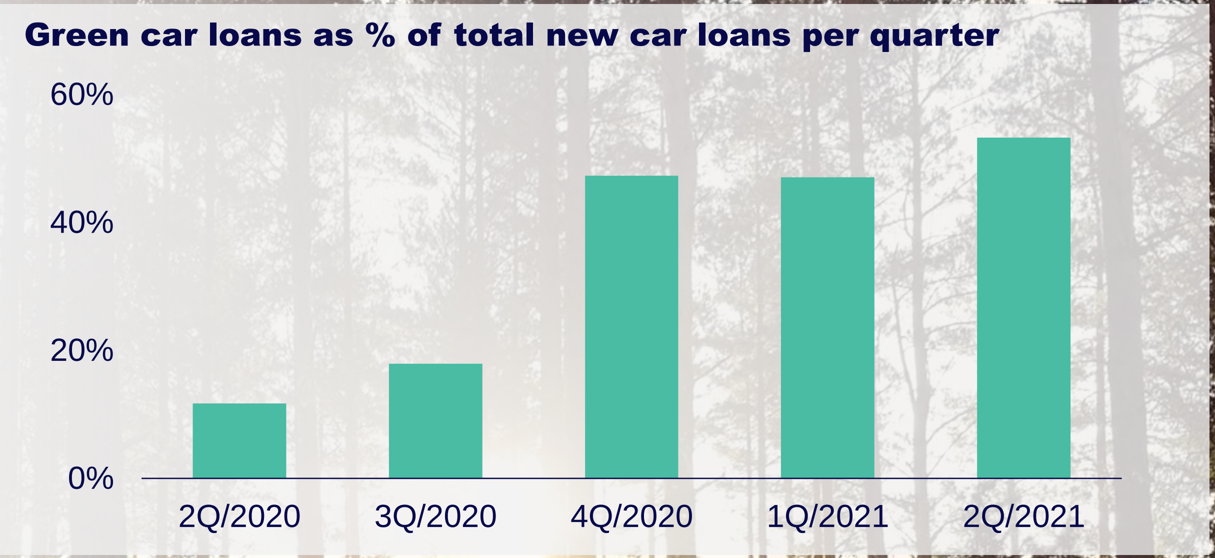
Nykredit Group capital ratios

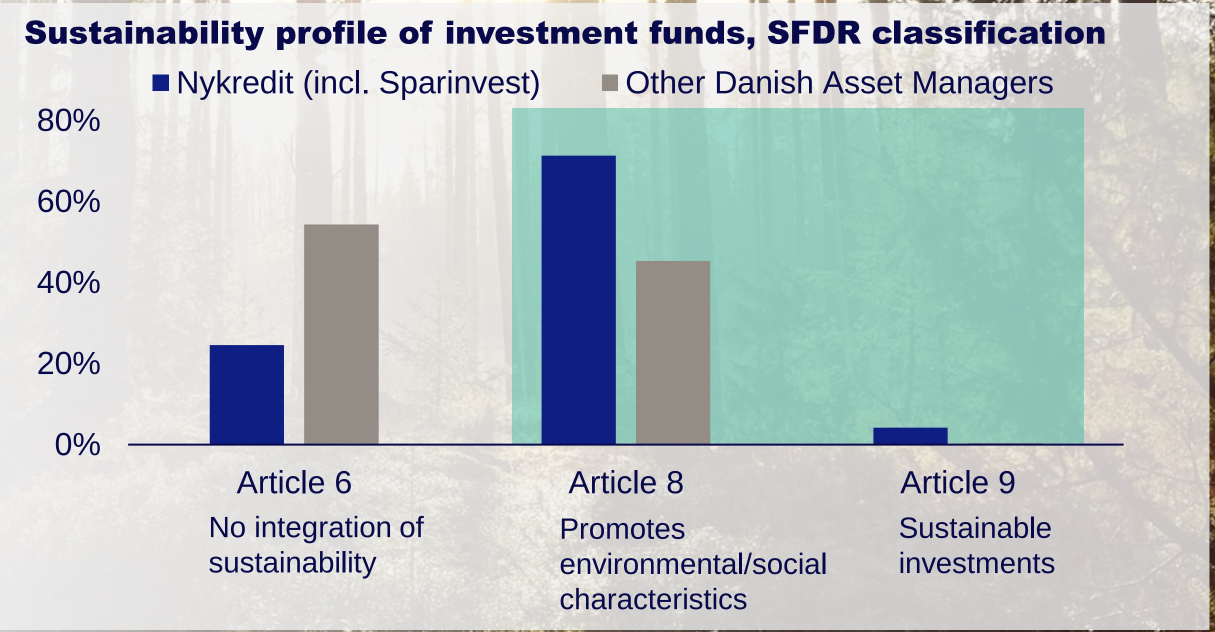
	Capital policy	H1/2021
Risk Exposure Amount (REA)		413.6bn
CET1		83.2bn
CET1 ratio	15.5 – 16.5%	20.1%
Total capital ratio	20 – 21%	22.8%
Leverage ratio		5.1%
Pillar I		8.0%
Pillar II		3.0%
Solvency requirement		11.0%

We continue the journey towards a greener Denmark

Green initiatives

- High customer demand for Nykredit's green products
- We have financed Denmark's largest solar panel park
- Launch of energy calculator to promote energy renovations of single family homes in H1/2021
- Fourteen Nordic Swan Ecolabelled funds in Nykredit - including an index fund with ambitious CO_2 emission targets
- The majority of Nykredit's investment funds are sustainable according to the EU Sustainable Finance Disclosure Regulation (SFDR)
- Commitment to support 20 afforestation projects through Nyskovfonden (The New Forest Trust) – planting of 35 hectares of forest
- We have reduced our own CO_2 emissions by 84% since 2012





Summary

Strong results and volume growth	■ Very satisfactory business profit of DKK 5bn as NII and NFI are up 2% and Wealth Management Income is up 11% compared to last year ■ ROAC of 13.1% ■ Volume growth driven by retail mortgage lending and bank lending to personal as well as business customers. Inflow of new funds in Wealth Management
Credit quality and covid-19	■ Credit quality remains strong reflected in impairments of just DKK 89m ■ Virtually no corona related loan losses yet due to improved credit quality and rising property values
ESG and green initiatives	■ Nykredit is being recognized by the customers for our green products and initiatives ■ We have increased lending in all 98 Danish municipalities in line with our commitment to support development nationwide ■ Nykredit's ESG rating from MSCI upgraded to "AA"
Guidance for 2021	■ Guidance for business profit and profit before tax for 2021 has been revised from DKK 7.25bn – 7.75bn to DKK 8.25 – 8.75

Financial performance, credit and funding

CFO David Hellemann

Group income statement – H1/2021 vs H1/2020

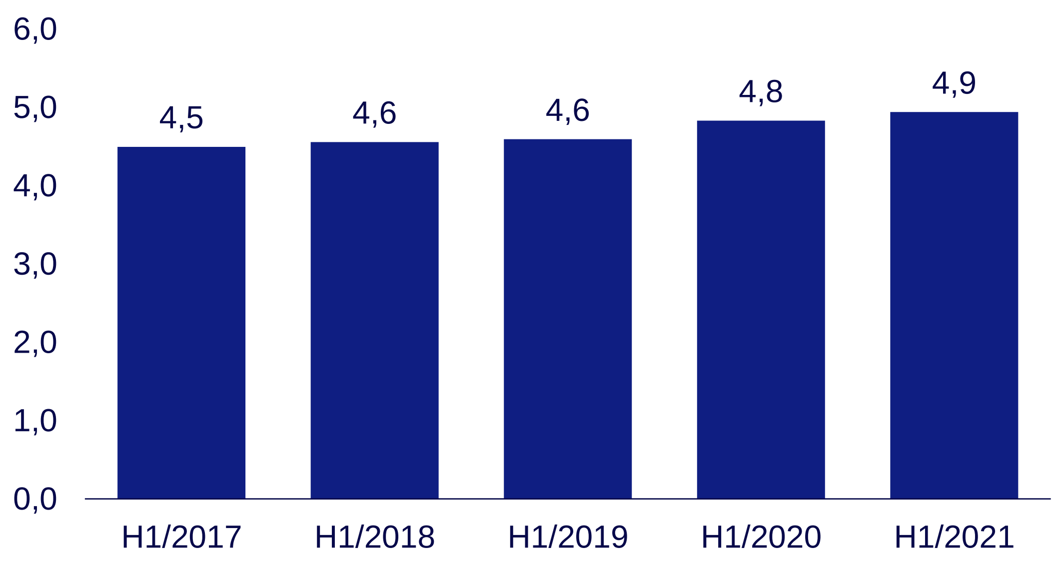
DKKm	H1/2020	H1/2021	Change	
Net Interest Income	4,832	4,940	+2%	Driven mainly by volume growth
Net Fee Income	1,188	1,216	+2%	Up due to higher activity in our mortgage, banking and estate agency businesses. Remortgaging activity remained elevated in the first half of 2021
Wealth Management Income	987	1,100	+11%	Increased due to positive fund inflow and positive value adjustments
Customer benefits & capitalisation costs	-295	-420	+42%	Higher costs due to customer benefits and larger volumes of bail-inable debt
Trading and Investment portfolio	-241	1,244		Driven up by a positive market development and gains on Danish bank shares etc.
Costs	2,841	2,989	+5%	Up due to inflow of customers, higher contributions to the resolution fund as well as higher IT and compliance costs
Impairment charges	1,755	89	-95%	Significantly lower than H1/2020 which was marked by a large covid-19 related reservation. Strong credit quality reflected in virtually no new impairment charges
Business profit	**1,875**	**5,002**	**167%**	**Full year guidance has been revised to DKK 8.25 - 8.75**
Legacy derivatives	-105	256		Positive value adjustment driven by higher interest rates
Profit before tax	**1,770**	**5,295**	**+199%**	

Net Interest Income up 2% driven by volume growth

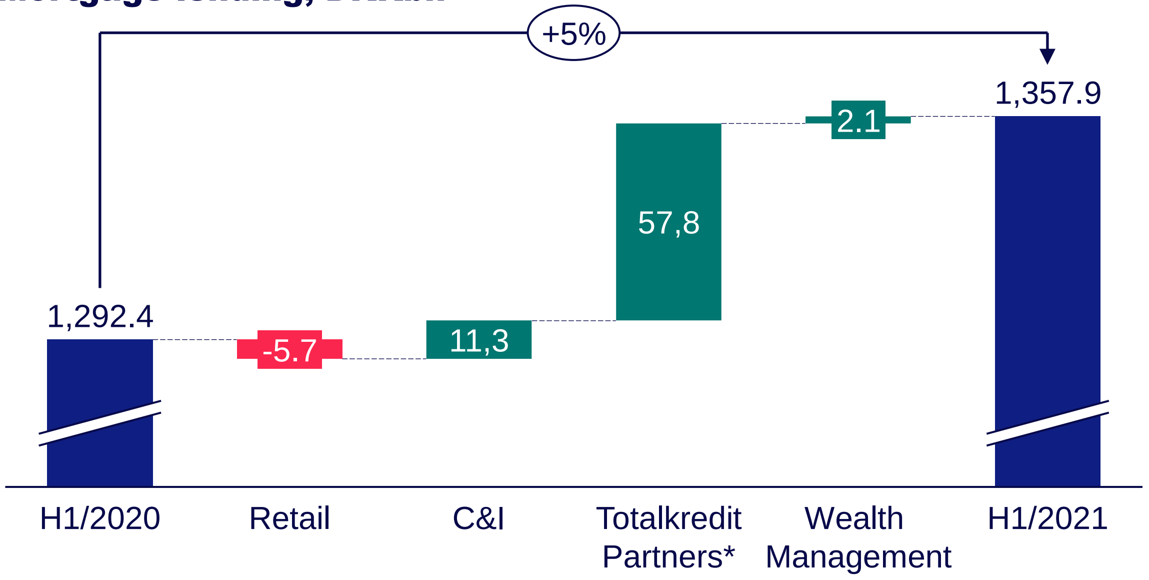
Volume growth offset shift in mortgage product mix

- We see consistent growth in NII driven mainly by higher loan volumes in mortgage and bank lending
- Average margins on mortgages remain under pressure due to shift in product mix
- Downward pressure on bank margins due to improved credit quality of the customers
- Positive impact on NII from adjustment in deposit margins

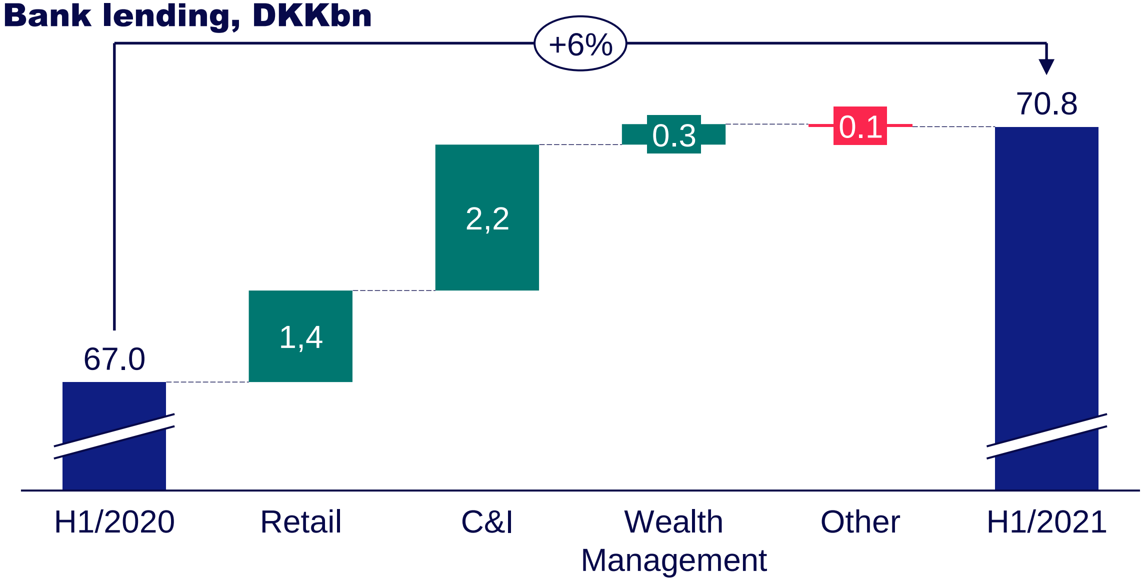
NII, DKKbn



Mortgage lending, DKKbn



Bank lending, DKKbn



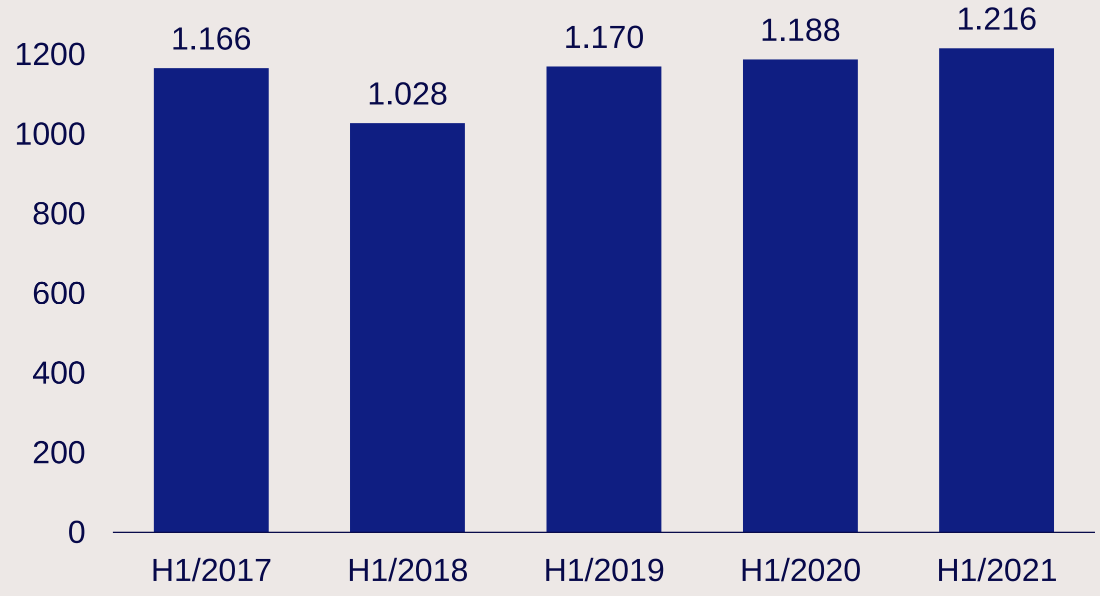
* Not including secured home loans

Net fee income up 2% driven by higher activity

Broad based growth in Net Fee Income

- High turnover in the property markets drives up fee income in the mortgage business as well as in the estate agencies
- The remortgaging activity continued early in the year but has slowed down in Q2
- Higher fee income from banking driven by higher trading activity and advisory fees
- Increased fee income from our new insurance collaboration with partner banks and Codan

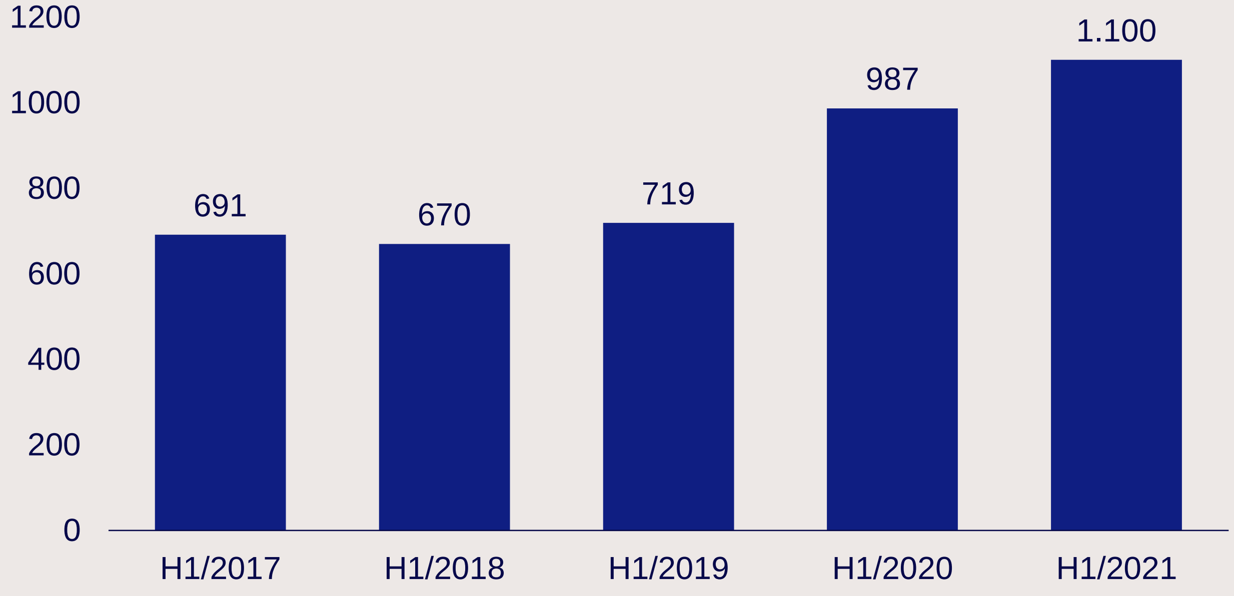
NFI, DKKm



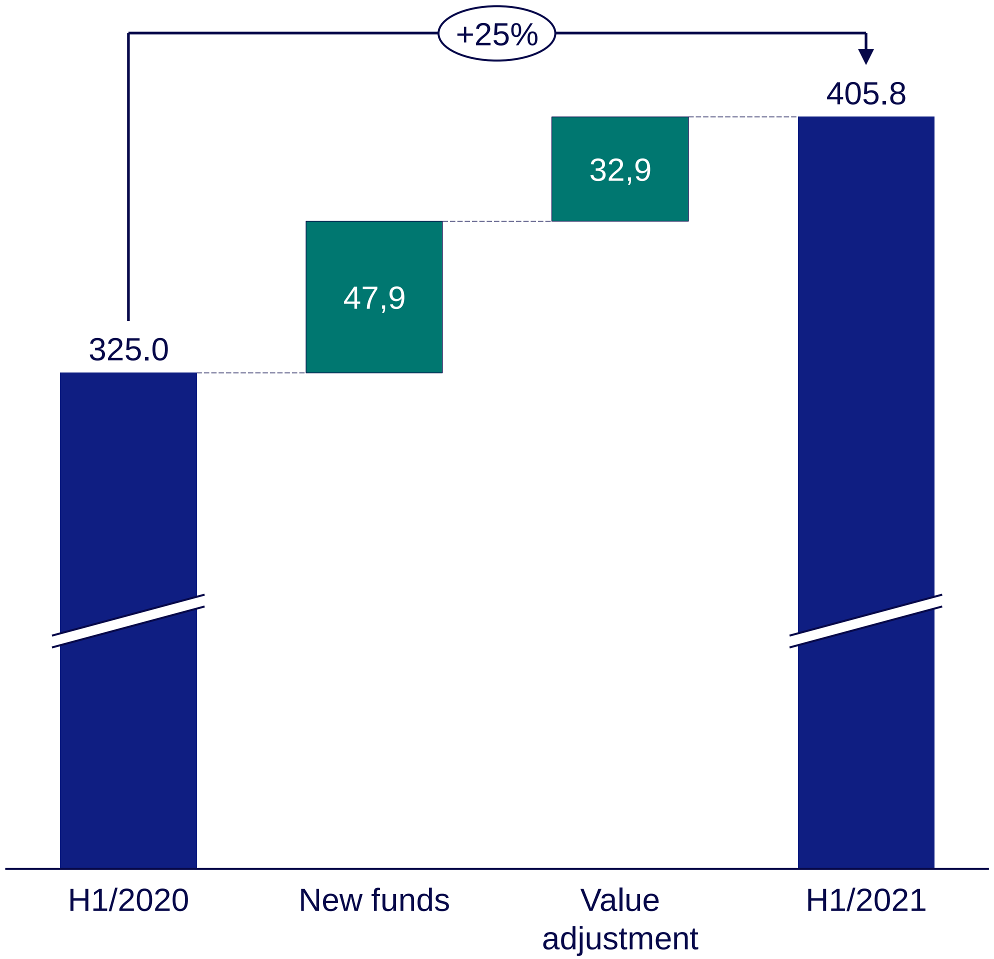
Wealth Management Income up 11% driven by higher AuM

- 25% growth in AuM of since H1/2020
- 59% of AuM-growth is due to inflow of new funds
- Income rose mainly due to increased activity in Private Wealth and increasing AuM

Wealth Management Income, DKKm

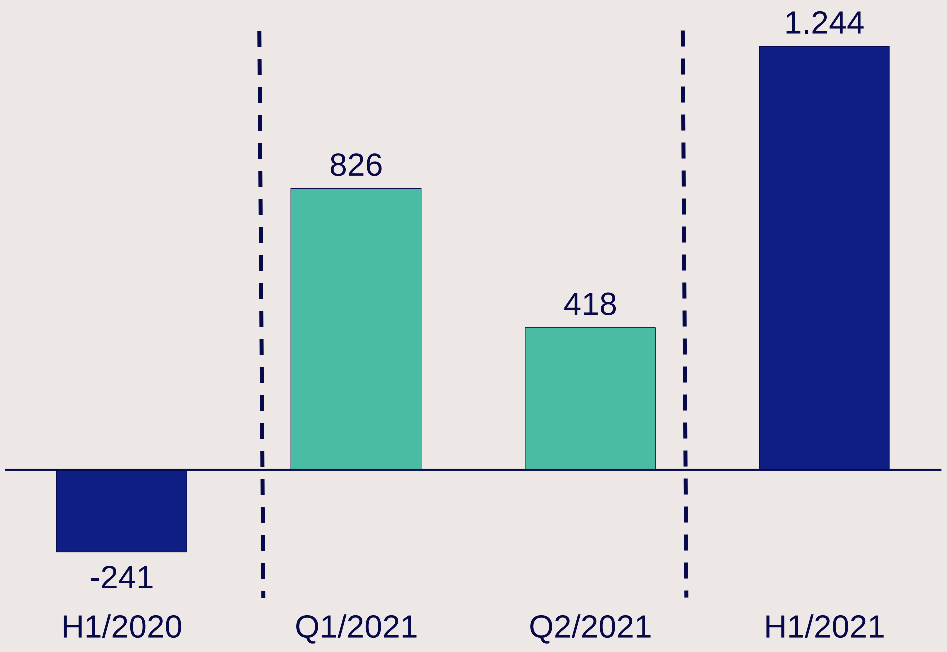


Assets under Management, DKKbn



Trading and investment portfolio income up due to a positive market trend

Trading and investment portfolio income 2021, DKKm

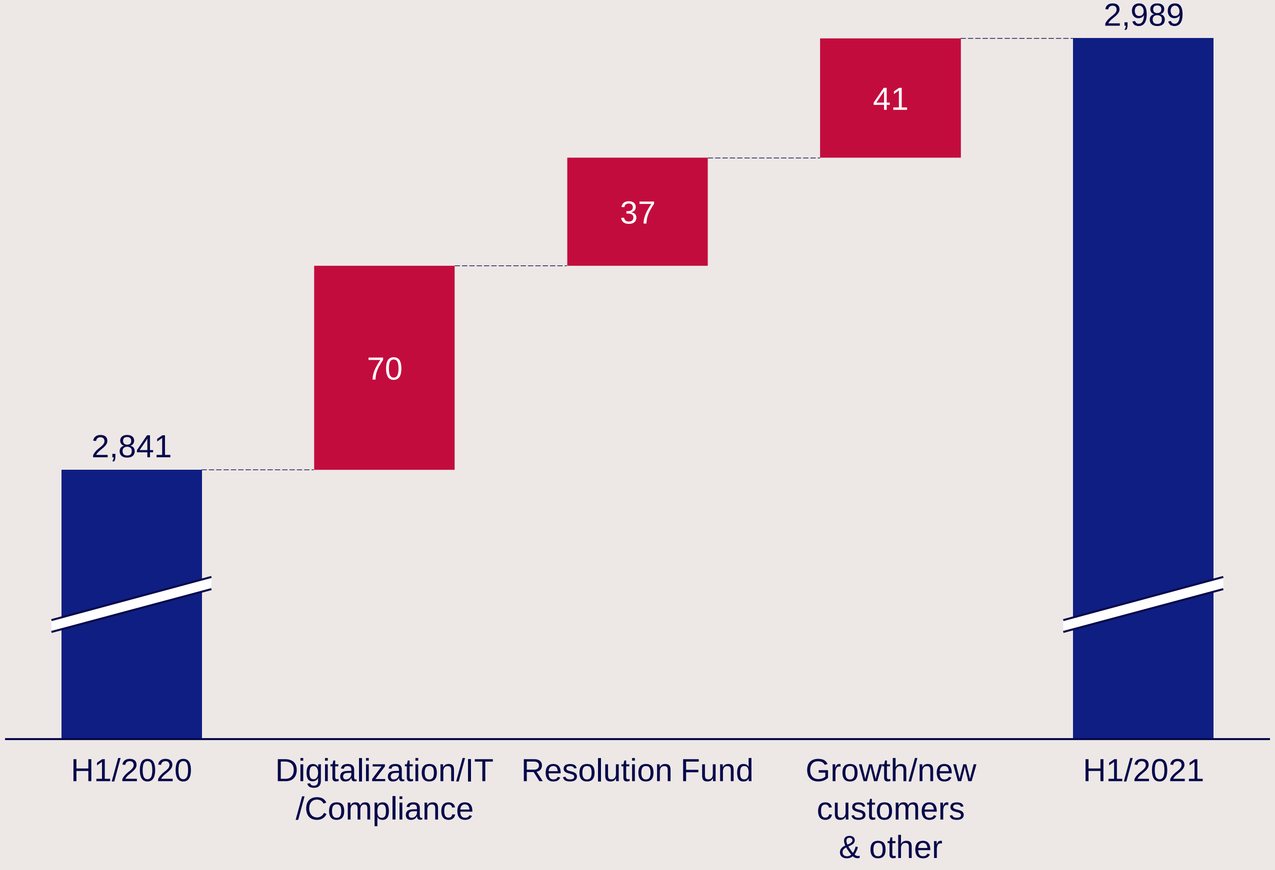


- Trading and investment portfolio income of DKK 1,244m in H1/2021
- Performance was driven by:
  - Higher valuations of strategic share holdings in Danish banks
  - Positive value adjustments on swaps due to higher interest rates
  - Higher customer driven trading activity

Cost development

- Costs are up DKK 148m from H1 last year
- Almost half of the increase is driven by cost related to compliance and IT/digitalization
- Additionally, an increase in the contribution to the Resolution Fund have caused higher cost of DKK 37m
- Investments in growth and new costumers and other have increased the cost by DKK 31m
- A new insurance collaboration has been established in 2021 with an effect of approx. DKK 10m

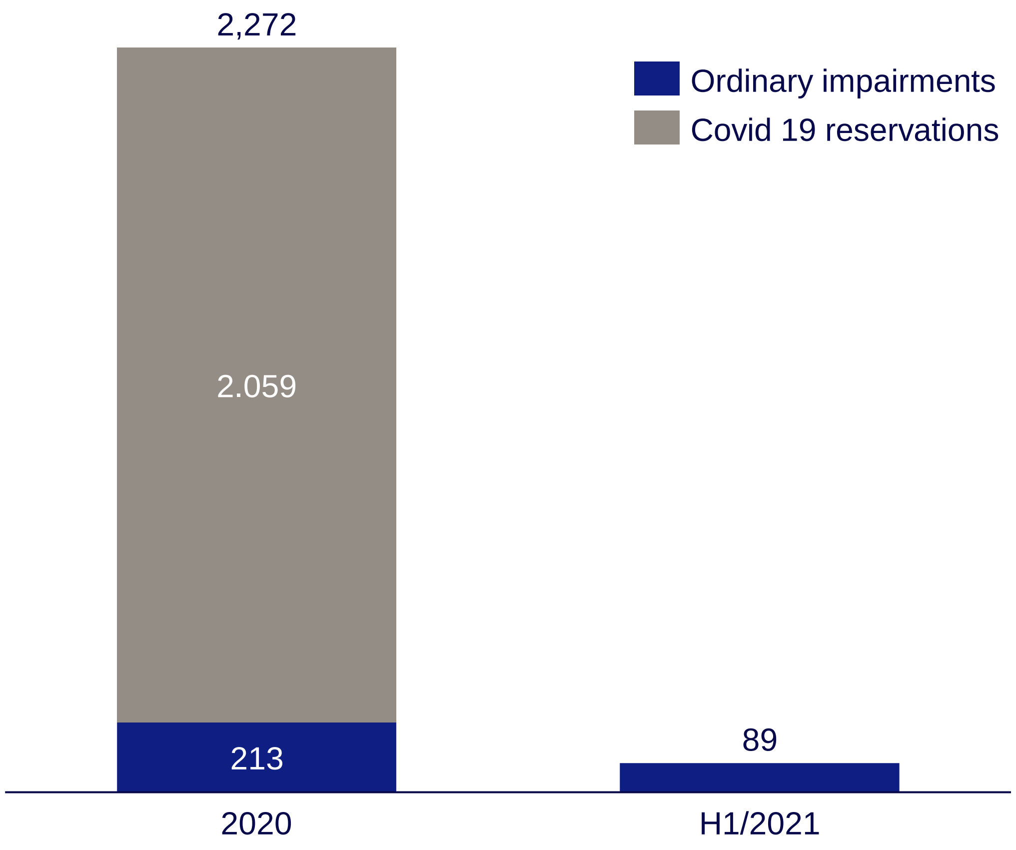
Change in costs from H1/2020 compared to H1/2021, DKKm



Low impairment charges due to benign economic conditions

- Impairment charges remain very low due to rising property prices and improved credit quality of our customers
- Nykredit has made impairment provisions of DKK 2.1bn for potential losses from covid-19
- So far we have not seen individual loan losses related to covid-19
- There is still substantial uncertainty of the effects when relief packages are gradually phased out
- Nykredit has focused on particularly vulnerable sectors and customers to ensure that any signs of weakness are captured and addressed in the credit process

Impairment provisions, DKKm

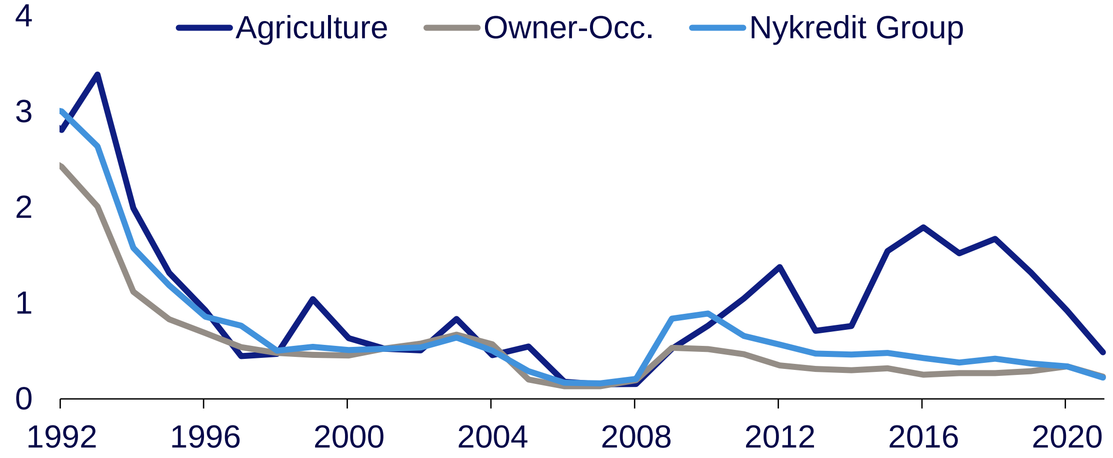


Credit quality remains robust but covid-19 will eventually lead to credit losses

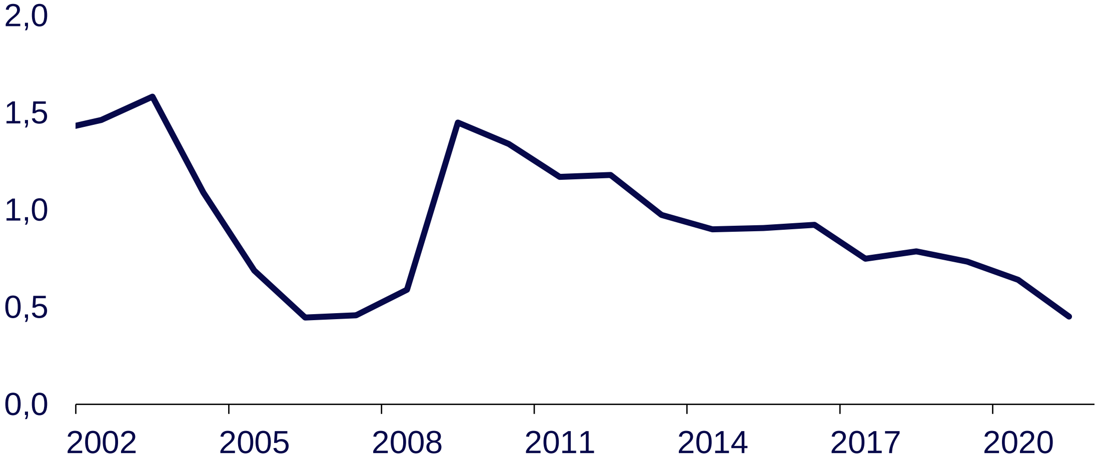
Credit quality

- Estimates of potential GDP decline and recovery path vary considerably
- Unemployment and property prices are key drivers of credit risk for Nykredit
  - The unemployment rate has declined to 3.3%
  - The housing market has been surprisingly strong from mid-2020
- Danish households are more robust than prior to the global financial crisis and many have accumulated large savings during pandemic
- Some commercial customers in selected sectors are challenged, but debt servicing has been kept due to government support packages
- Nykredit has virtually no exposure to oil/gas, shipping and airlines

75-day mortgage arrears to latest term, %



15-day mortgage arrears to 1 July term, %



Source: Nykredit company reports and Fact Book

Ongoing upward pressure on REA

The starting point

- In H1/2021, REA increased DKK 13bn or 3% due mainly to phase-in of regulatory changes
- The REA impact of market turmoil in March 2020 is now being reversed

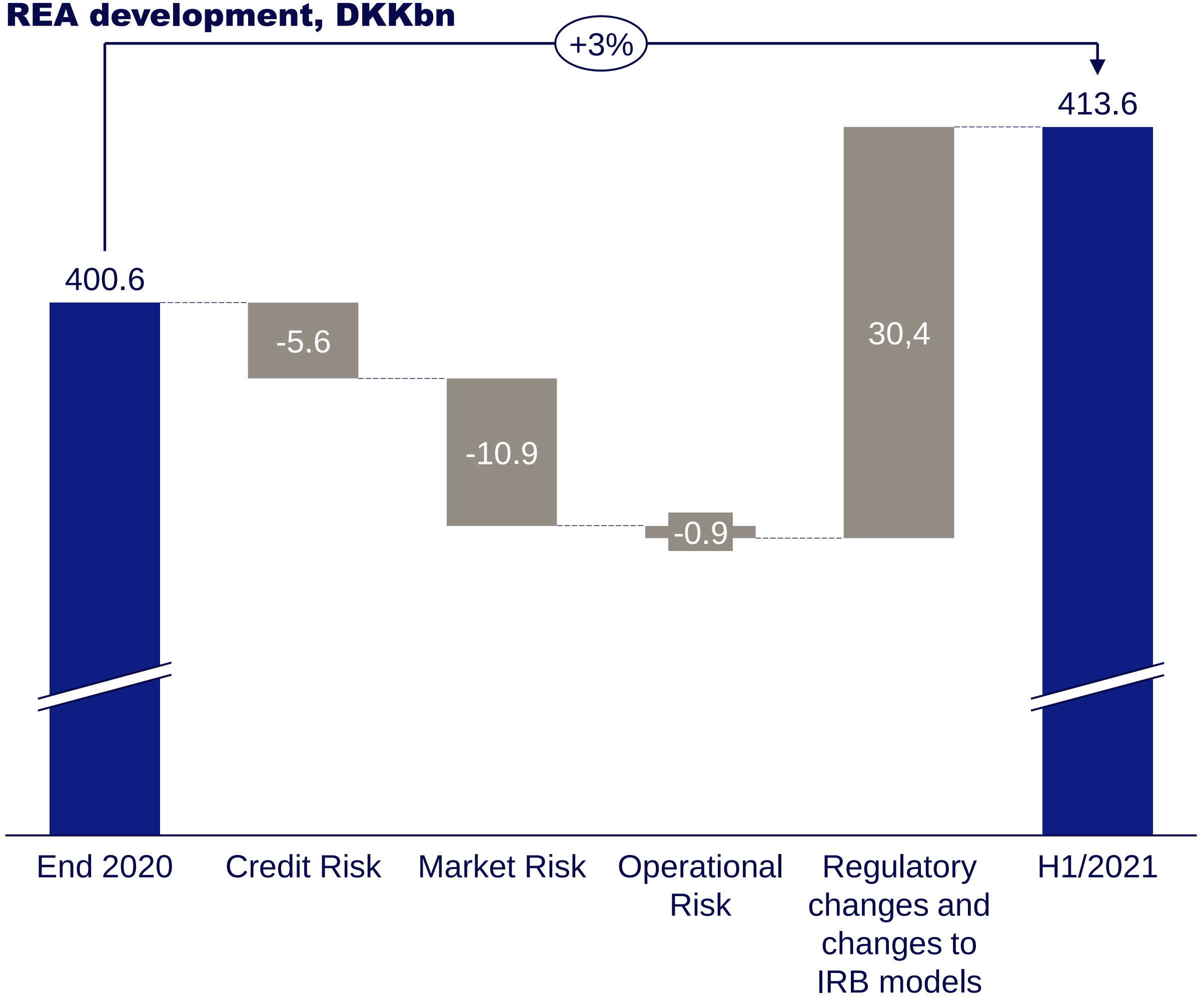
Regulatory development

- In H1, both a new definition of default applying to IRB models and revision of the standardised approach for counterparty risk has added some DKK 30bn to REA
- Further regulatory changes to IRB-models are expected to increase REA over time

Covid-19 related credit risk

- So far REA for credit risk has not been impacted negatively by covid-19, as we have not seen rising arrears, overdrafts nor property price declines

REA development, DKKbn

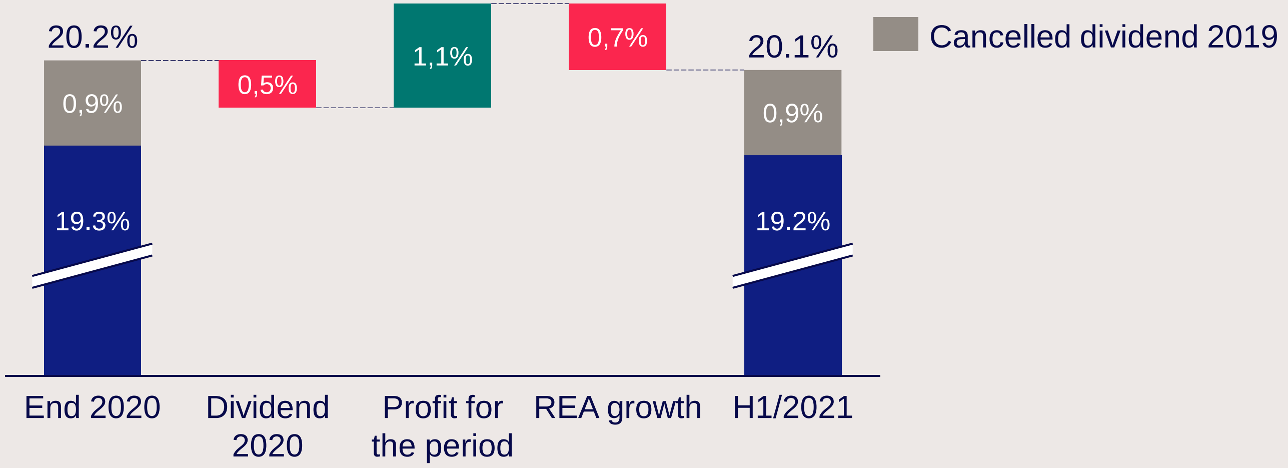


Strong capitalisation

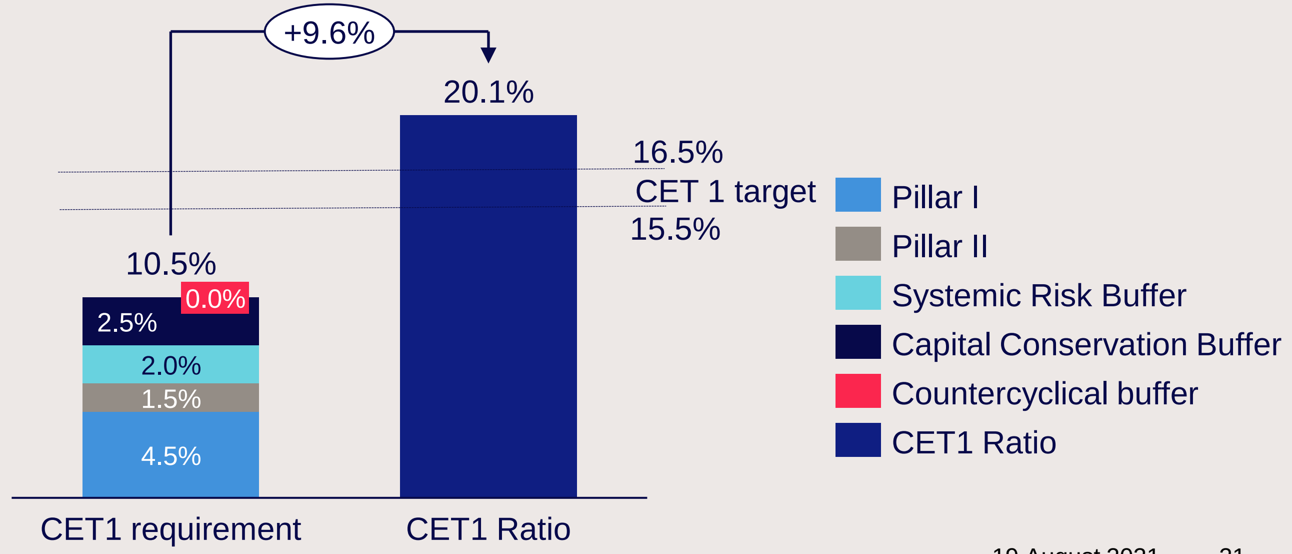
Capital highlights

- Nykredit maintains a strong capital position
- CET1 of 20.1% is some 400bps above the capital policy target, while the buffer is 960bps to current CET1 requirement:
  - Part of Nykredit's strong capitalisation is reserved for the future effect of Basel IV
  - By 30 September 2022, the countercyclical buffer will be reactivated at 1.0% and further increases are expected
  - Dividend of DKK 3.6bn for 2019 has not yet been paid as per Danish FSA recommendation to all Danish banks
  - The FSA is expected to align with the ECB's decision not to extend the dividend recommendation beyond Q3/2021
- Nykredit is sufficiently resilient to withstand a severe recession

CET1 capital ratio



CET1 capital position and requirement

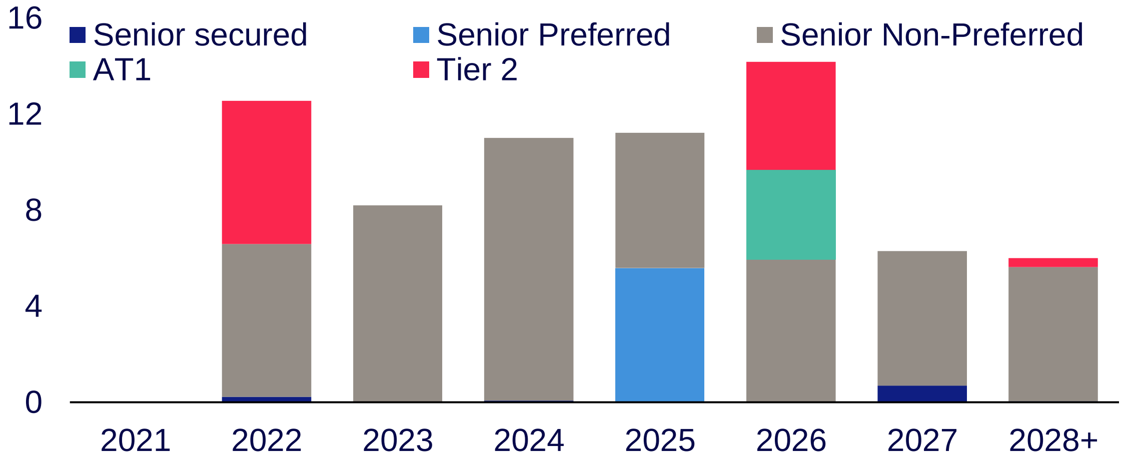


Funding and ratings

Funding

- The main driver of Nykredit's funding needs is the requirement to hold at least 8% of TLOF in bail-inable format by 2022
- The amount of bail-inable liabilities is expected to remain broadly stable around the current level of approx.150bn by end-2021
- Nykredit has issued about DKK 10.5bn of SNP and DKK 4.5bn of Tier 2 capital in 2021
- Nykredit expects to issue DKK 0 - 5bn in the remaining part of 2021
- We are conducting the quarterly refinancing auctions of shorter dated covered bonds of approx. DKK 31bn in total next week

Nykredit Group maturity* profile, DKKbn



Nykredit's ratings	S&P Global	Fitch Ratings
Covered bonds	AAA	-
Senior preferred debt	A+	A+
Short-term debt	A-1	F1
Outlook	Stable	Stable
Senior Non-Preferred	BBB+	A
Tier 2	BBB	BBB+
Additional Tier 1	BB+	BBB-

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

Concluding remarks

Result and Income from business	■ Very satisfactory business profit of DKK 5.0bn – Net profit of DKK 4.4bn ■ Strong growth in lending and Wealth Management drives NII, NFI and Wealth Management Income up ■ Positive market development drives income from Trading, investment portfolio and derivatives up to DKK 1.2bn
Costs	■ Inflow of new customers via organic growth drives costs higher. Also higher costs to the resolution fund, compliance and IT ■ Cost:Income ratio of 37.0% helped by strong income
Impairments and covid-19	■ Credit quality remains strong reflected in virtually no underlying impairments ■ Reservation of DKK 2.1bn for covid-19 impact remains intact as we are still waiting to see the first corona related loan losses
Growth in business volumes	■ We continue to see healthy inflow of new retail and commercial customers with good credit quality ■ Satisfactory volume growth in especially retail mortgage lending, bank lending and Wealth Management
Capital	■ CET1 of 20.1% and robust EBA stress test results ■ Restrictions on 2019 dividends are expected to be lifted after Q3
Guidance for 2021	■ Guidance for business profit and result before tax for 2021 has been revised for DKK 7.25 – 7.75bn to DKK 8.25 – 8.75

Appendix

Q1 vs. Q2: Income is down 9% due to lower trading and investment portfolio income

Lower trading and investment income and impairments

- Overall income down 9% Q/Q
  - NII increased 1% on volume growth
  - Net Fee Income 8% higher
  - Wealth management income up 2%
  - Trading and investment portfolio income reduced by 49%
- Costs up 6% due to higher contributions to the resolution fund
- Impairment charges amounted to DKK -2m due to improved credit quality and rising property values
- Business profit of DKK 2,319m compared with DKK 2,684 in Q1/2021
- Legacy derivatives recorded a negative value adjustment of DKK 181m
- Profit before tax of DKK 2,374m compared with DKK 2,920m in Q1/2021

Business results Q1/2021 vs Q2/2021

DKKm	Q1/2021	Q2/2021	Index
Income	4,223	3,857	91
- Net interest Income	2,454	2,485	101
- Net fee income	584	632	108
- Wealth management income	544	556	102
- Net interest from capitalisation	-114	-132	116
- Net interest income fr. customer benefit programmes	-72	-103	143
- Trading, investment portfolio and other income	826	418	51
Costs	1,449	1,541	106
Business profit before impairment charges	2,775	2,316	83
Impairment charges	91	-2	-
Business profit	2,684	2,319	86
Legacy derivatives	237	56	24
Profit before tax	2,920	2,374	81
Tax	535	408	76
Profit	2,386	1,967	82

Basis for covid-19 related impairments

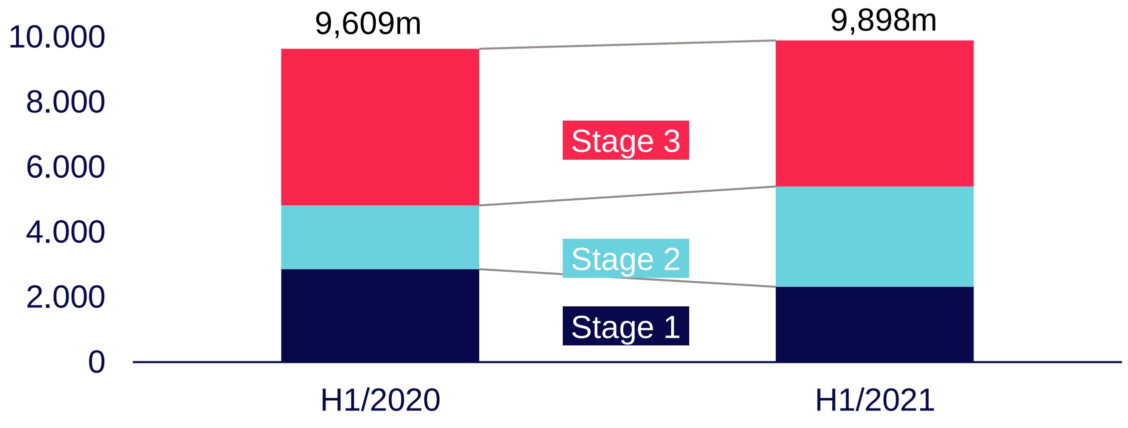
- Pandemic related impairments amount to DKK 2.1bn and are based on model simulations
- Macroeconomic scenarios of the model have been updated to allow for the covid-19 impact, including mitigating aid packages
- Nykredit has updated the scenarios used for calculating impairments but the likelihood of the scenarios are unchanged:
  - 55% probability to the main scenario
  - 35% to the adverse scenario and
  - 10% to the benign scenario which equals the current economic situation

Macro economic assumptions for main scenario (55% prob.)

Per cent	2018	2019	2020	2021e	2022e
Short interest rate	-0.3	-0.4	-0.2	-0.2	-0.2
Long interest rate	0.4	-0.2	-0.4	-0.2	-0.1
House prices	3.8	3.1	4.1	9.4 ▲	2.4 ▼
GDP	2.2	2.8	-2.7	2.9 ▲	3.4 ▼
Unemployment rate	3.1	3.1	4.2	3.7	3.5

Arrows indicate revisions since Q1/2021

Development in IFRS 9 impairments by stage, DKKm

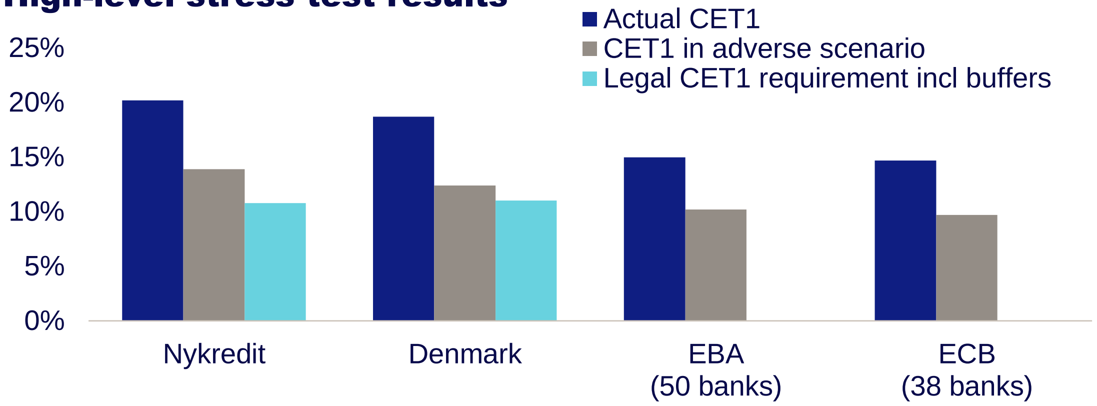


EU-wide stress test

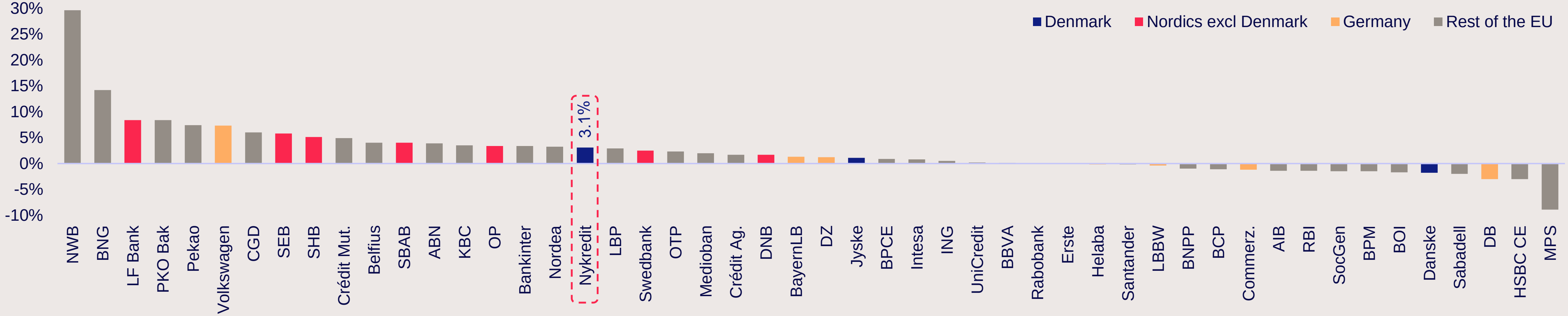
Adverse scenario

- Yet another very severe macro stress scenario for the Nordics
- Impact of 6.3 pp on Nykredit's CET1 capital ratio, which corresponds to the average impact to Danish banks (unweighted)
- Hence, Nykredit's CET1 capital ratio declines to 13.9% in stress implying a buffer of 3.1 pp to the legal CET1 requirement including buffers
- Results support Nykredit's current capital policy target that includes an incremental buffer for a hard macro stress on top of the capital buffers

High-level stress test results



Buffer to legal CET1 requirement in the EBA stress test (50 banks)



Sources: EBA: *2021 EU-Wide Stress Test – Results, 30-Jul-21* and ECB: *SSM-wide stress test 2021 – Final results, 30 July 2021*. Results are based on fully loaded CET1 position in the adverse scenario, ie without transition effects of IFRS 9.

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