

# Nykredit Group

## FY-2016 earnings call

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7 February 2017



**Nykredit**

# Highlights from FY-2016

## Business results

- Profit from core business up 4% compared to 2015
  - Top-line on par with very high 2015
  - Costs reduced according to plan with C:I ratio of 40
  - Loan loss provisions still very low due to benign macro economic climate
- Negative value adjustments for swaps amount to DKK 763m
- Profit from core business DKK 5.8bn – the best in Nykredit's history
- 8.6% core business return on equity

## Business volumes

- Totalkredit lending increased by DKK 9.5bn
- Bank lending and deposits increased by ~18% and ~4% respectively compared to end-2015
- 9% growth in Assets under Management in Wealth Management

## Status on strategy implementation

- Good progress in attracting more home-owner customers despite headwinds
- Top line and cost reductions develop according to plan

## IPO

- Preparation for IPO progressing according to 2 year time frame
- Focus on internal processes and governance

# Winning the Double strategy

## Full service customers

- 7% increase in the number of full service retail customers in 2016
- Significant potential in the Nykredit's retail mortgage customers that are not customers in a partner bank
- Growth in the number of full service SME customers
- Efficient network of 43 branches nationwide
- Good progress in a challenging year for Nykredit

## The Totalkredit partnership

- A unique distribution platform with more than 750 branches
- Retail and commercial mortgage lending
- Nykredit is developing a new future-proof mortgage business platform for the partners and Nykredit
- Further development of web-based advisor services
- Successful risk and revenue sharing model

# Nykredit

Market share	2015	2016
Mortgage lending	41.8%	41.2%
Bank lending	5.8%	7.2%
Domestic lending	30.6%	30.8%



Sources: Nykredit FY-2016 Reports and cover pool, CR Fact Book FY-2016 and MFI statistics and Yougov

## Profit from core business up 4% compared to 2015

DKKm	2015	2016	Index	Q4/2015	Q4/2016	Index
Core income from business operations	12,126	12,159	100	2,892	3,285	114
Senior and subordinated debt	(610)	(494)		(127)	(98)	
Securities	38	46		9	13	
<b>Income from core business</b>	<b>11,554</b>	<b>11,711</b>	<b>101</b>	<b>2,774</b>	<b>3,200</b>	<b>115</b>
Operating costs, depreciation and amortisation	4,935	4,872	99	1,331	1,292	97
Provision for restructuring	70	250		70	250	
Danish resolution fund	61	138		15	34	
<b>Profit from core business before impairment losses</b>	<b>6,488</b>	<b>6,451</b>	<b>99</b>	<b>1,358</b>	<b>1,624</b>	<b>120</b>
Impairment losses on mortgage lending	1,041	821	79	261	378	145
Impairment losses on bank lending	(121)	(141)	-	(34)	(83)	
<b>Profit from core business</b>	<b>5,568</b>	<b>5,771</b>	<b>104</b>	<b>1,131</b>	<b>1,329</b>	<b>118</b>

Source: Nykredit FY-2016 report

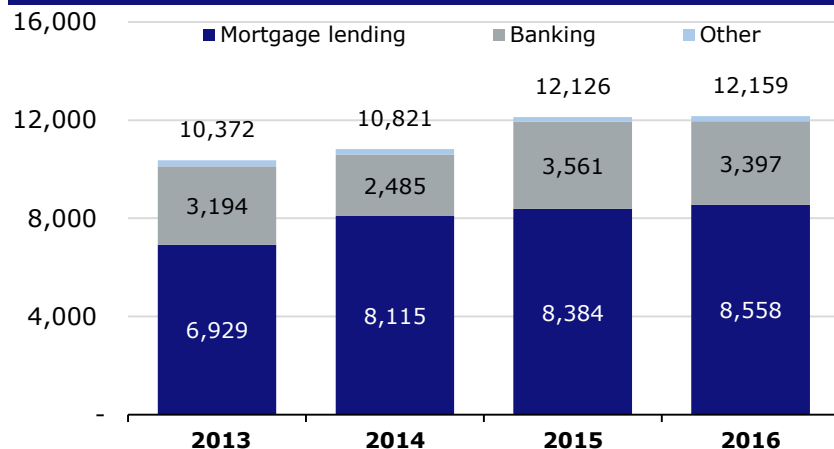
## Profit before tax up 43% compared to 2015

DKKm	2015	2016	Index	Q4/2015	Q4/2016	Index
<b>Profit from core business</b>	<b>5,568</b>	<b>5,771</b>	<b>104</b>	<b>1,131</b>	<b>1,329</b>	<b>118</b>
Derivatives no longer offered	229	(763)		129	422	
Gain on sale of owner-occupied properties	0	369		0	369	
Impairment of goodwill and customer relationships	1,965	0		58	0	
Investment portfolio income	750	1,331	177	372	218	
Investment portfolio income, capital gains from sale of strategic equities	103	0		0	0	
<b>Profit before tax</b>	<b>4,685</b>	<b>6,708</b>	<b>143</b>	<b>1,574</b>	<b>2,338</b>	<b>149</b>
Tax	1,494	1,379		374	472	
<b>Profit after tax</b>	<b>3,191</b>	<b>5,329</b>	<b>167</b>	<b>1,200</b>	<b>1,866</b>	<b>156</b>

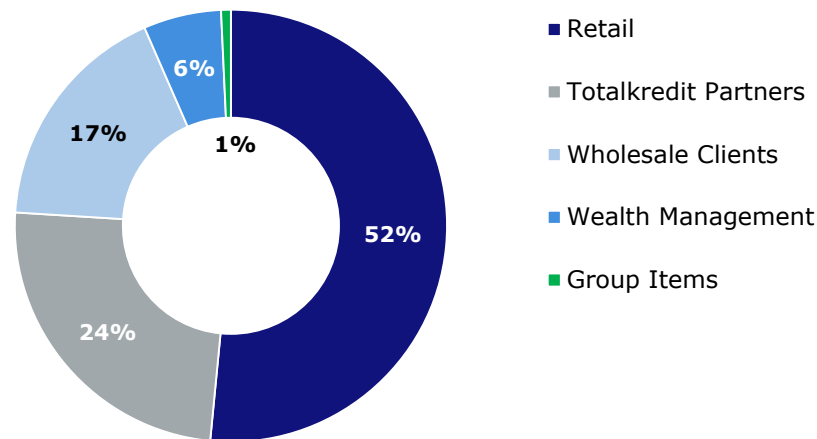
Source: Nykredit FY-2016 report

# Core earnings in line with busy 2015

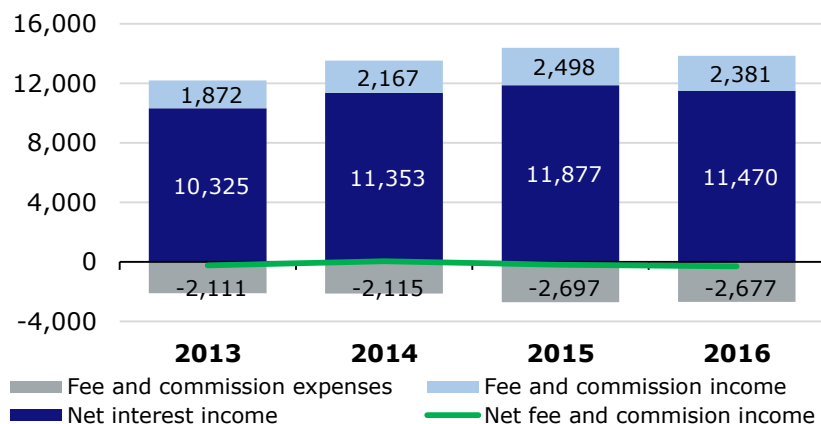
## Core earnings from business operations, DKKm



## Total business operations income, %



## Partner-model result in net fees close to 0



Source: Nykredit FY-2016 report

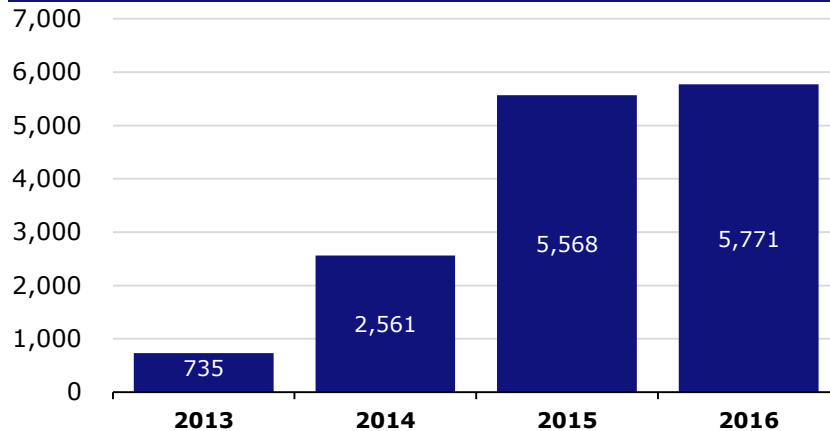
## Group facts

	2015	2016
Total assets, DKK	1,383.8bn	1,400.6bn
Risk Exposure Amount (REA)	311.2bn	349.3bn
CET1	60.5bn	65.9bn
Return on equity before tax <sup>1</sup> , %	7.5%	10.0%
Return on assets, %	0.44%	0.38%
Net Interest Margin, %	0.86%	0.91%

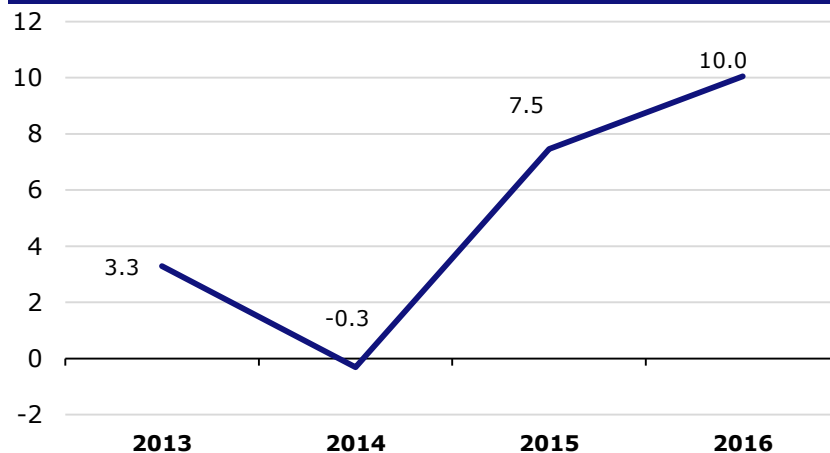
<sup>1</sup> Annualised profit (loss) before tax including interest on AT1 divided by average equity for the period

# Costs declining and profit increasing

## Profit from core business, DKKm

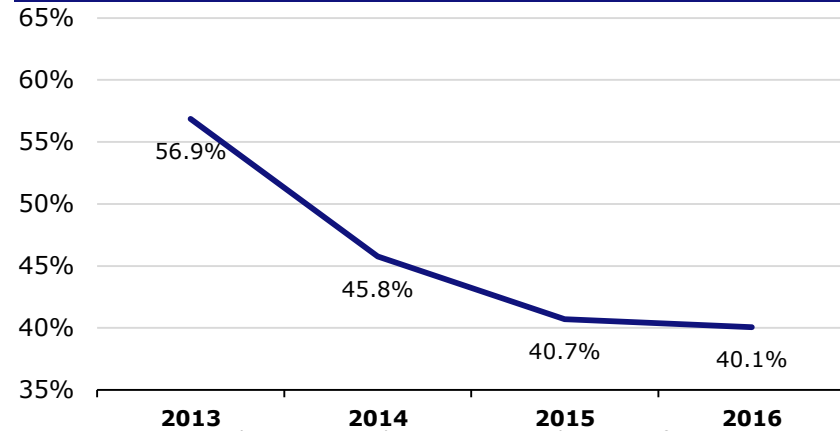


## ROE before tax, %



Source: Nykredit FY-2016 report

## Group operational cost:income ratio



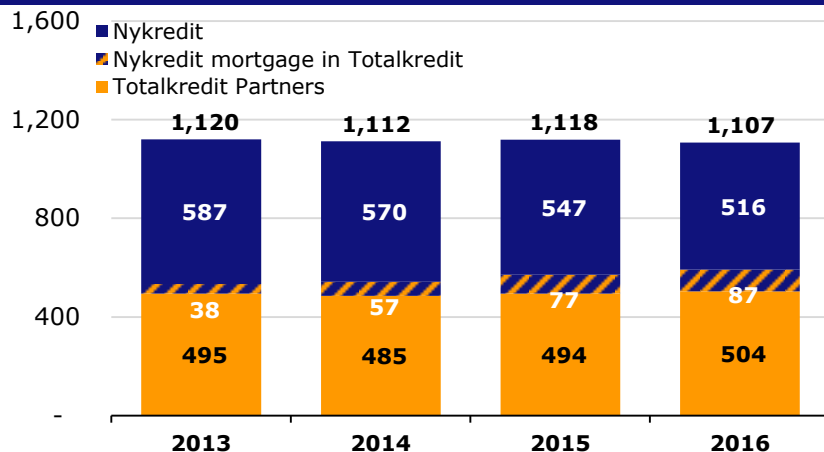
Note: Operating costs, depreciation and amortisation, excl provision for restructuring and Danish Resolution Fund as % of core earnings from business operations

## Comments

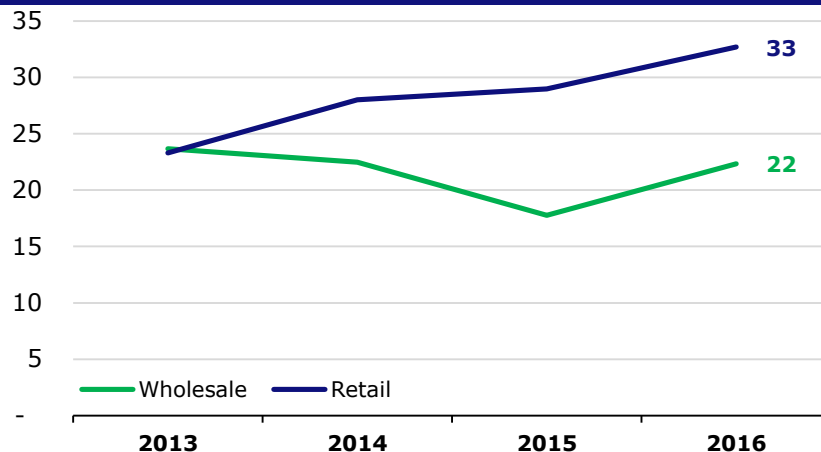
- Sustained improvement in core business since 2013
- Core earnings from business operations marginally higher than 2015 where re-mortgaging activity where extraordinarily high
- Ongoing cost reductions
- 2017 profit from core business expected to be broadly in line with 2016

# Growth in bank lending and Assets under Management

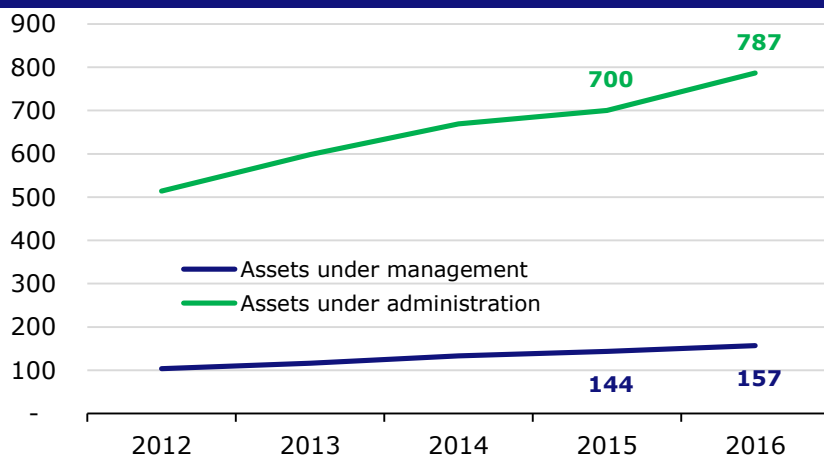
## Mortgage lending (nom. portfolio), DKKbn



## Bank lending (portfolio), DKKbn



## Assets under management, DKKbn



## Comments

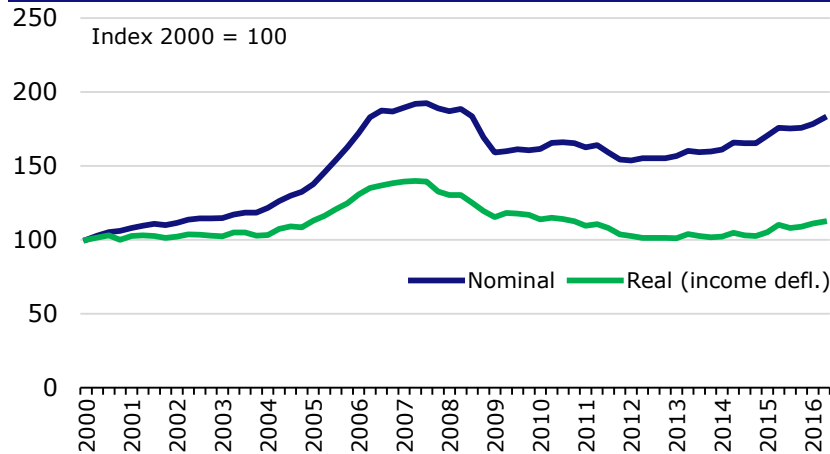
- Totalkredit mortgage portfolio grew by DKK 10bn despite run-off of legacy partner portfolios
- Total mortgage lending decreased in nominal terms by DKK 11bn, but increased by DKK 6bn at fair value
- Bank lending to customers increased by a total of DKK 8bn compared to year-end 2015
- Assets under management grew by 9%
- Assets under administration grew by 11% in 2016

Source: Nykredit FY-2016 reports

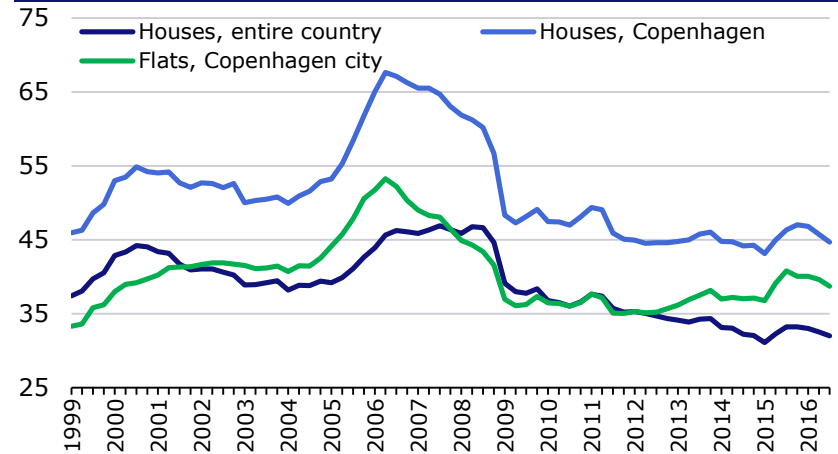


# Danish housing market recovering

## House price inflation, Denmark



## Housing burden, % of disposable income

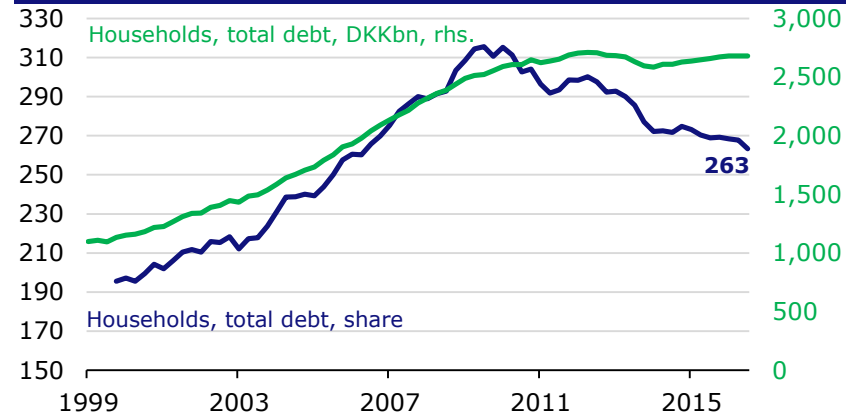


The index describes the housing burden of a first time buyer as the combined housing expenses including 30Y fixed rate financing as the percentage of disposable income

## Danish economy and household finances

- Moderate GDP growth and low unemployment rates supports the financial health of Nykredit's customers
- Ongoing household consolidation reflected in low level of loan growth
- Real house prices are recovering nationwide with strongest performance in and around major cities
- Affordability is generally good
- House price inflation stagnating in most attractive cities

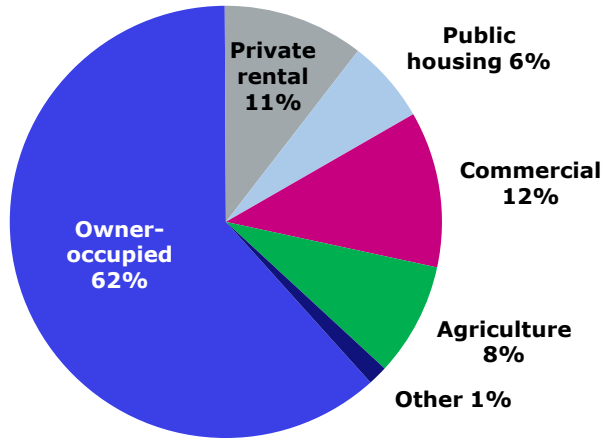
## Share of disp. income, %, DKKbn



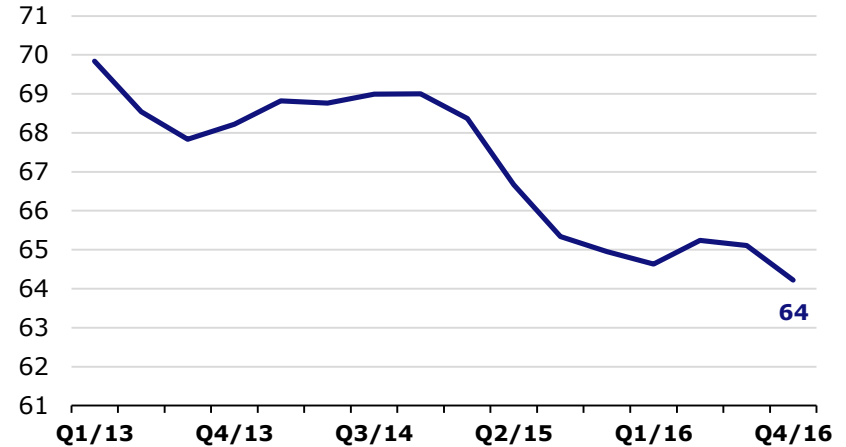
Source: Macrobond, Nykredit Markets, Statistics Denmark

# Mortgage credit metrics improving except for agriculture

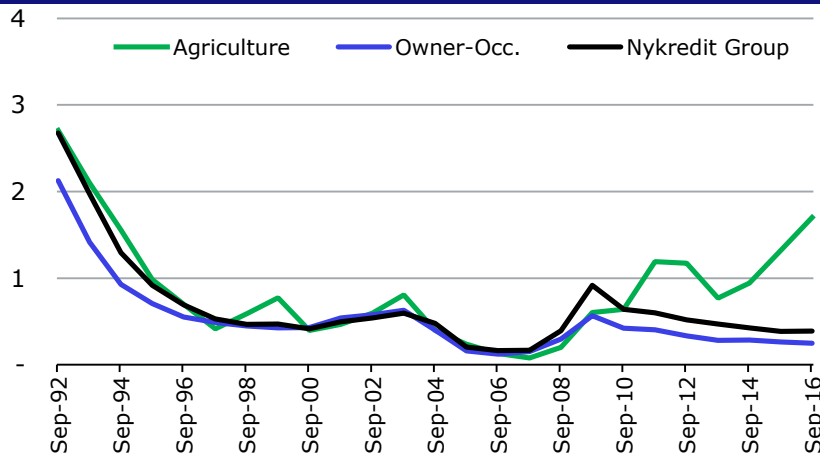
## Mortgage lending by property type



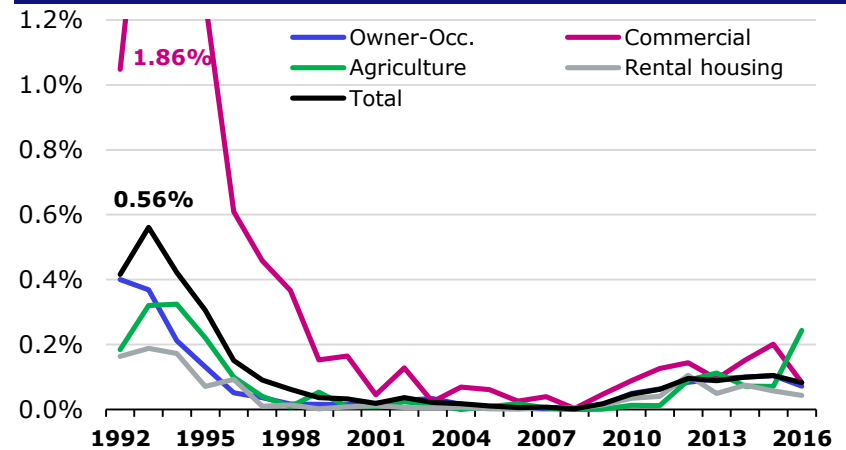
## Average mortgage LTV (all segments), %



## 75-day arrears, %



## Mortgage lending: Incurred loss as % of debt



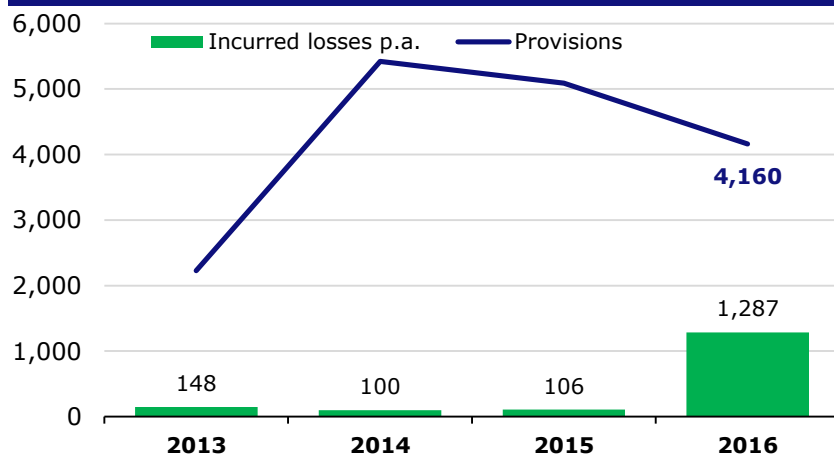
# Impairments losses declining as economy is growing

%	2013	2014	2015	2016
Impairment losses				
- Mortgage lending	0.21	0.19	0.09	0.07
- Bank lending	0.29	0.22	-0.12	-0.15
Nykredit Group				
- Non-performing loans	2.46	2.39	2.45	2.36
- Cover ratio*	29.1	32.0	28.9	29.0
Acquired properties, no.	322	238	159	114
Level of I/O	58%	55%	53%	51%

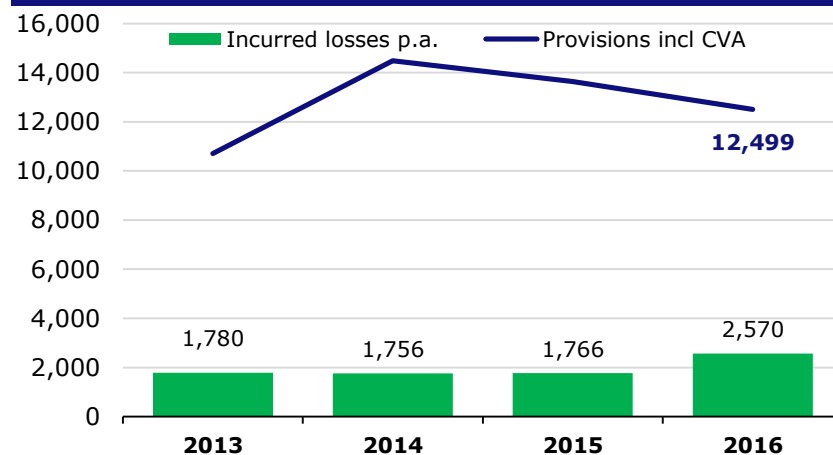
## Comments

- Foreclosures are at a very low level
- Year-end portfolio of 114 properties acquired by foreclosure, down from 159
- Nykredit has financed 650,000 properties
- Group NPL at 2.36% with a cover ratio of 29% reflecting the collateralised nature of the Group's lending
- Total lending to cooperative housing equal DKK 38bn
- Increase in total incurred losses and the consequent decrease in total provisions is termination of swaps

## CVA provisions and incurred losses, DKKm



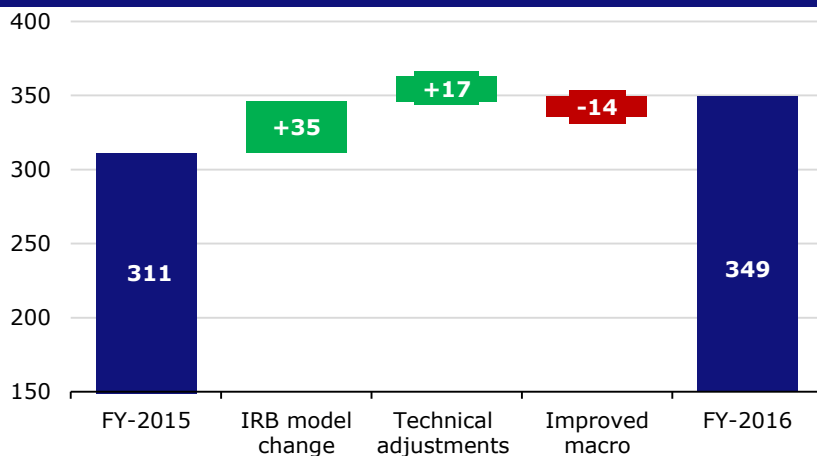
## Total provisions and incurred losses, DKKm



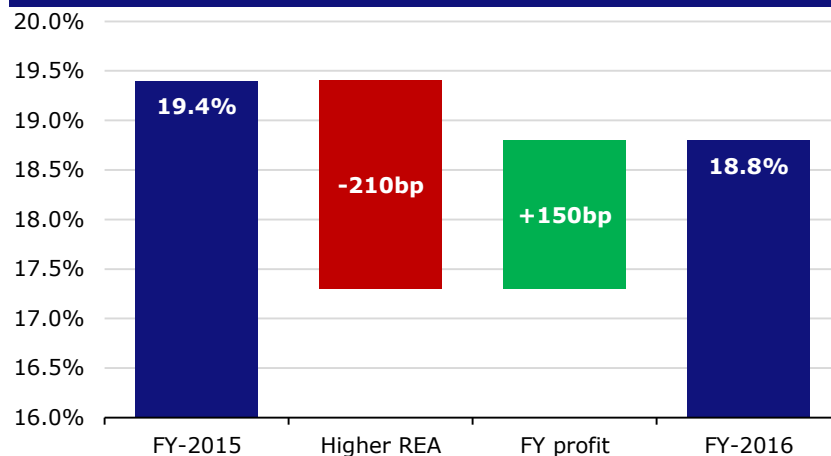
\* Reserves for impaired loans / impaired loans  
Source: Nykredit FY-2016 Reports and Fact Book

# IRB model changes affect REA and CET1 ratio

## REA development, DKKbn



## CET1 development, %



## Comments

- Previously announced IRB-model changes were approved by the DFSA and implemented in Q3
- The changes increased REA by DKK 35bn
- At the same time Nykredit's Pillar II requirement was reduced with the same effect
- Nykredit's REA calculation is sensitive to property prices
- Improving customer credit worthiness and increasing property prices reduced REA
- Higher REA reduced the CET1 ratio by 210bp while profit for the year added 150bp

## Group facts

	2015	2016
Pillar I	8.0	8.0
Pillar II	3.8	2.2
CET1 ratio	19.4%	18.8%
Total capital ratio	23.9%	23.0%
Leverage ratio	4.4%	4.6%

# The Basel Committee's current draft proposal

## Nykredit characteristics

- 95% of lending is low risk mortgages
- Danish tradition for mortgages with 80% LTV
- Long track record of low credit losses...
- ...warrants low IRB risk weights
- Large covered bond flow from mortgage business

## Basel proposal

- Risk weight floor...
- ...with large impact for mortgages with LTV >55%
- LGD and PD floors for mortgages in IRB models
- Restrictions on use of IRB models
- Covered bonds under FRTB: Higher capital requirements under Standardized Approach

## Consequences for Nykredit

- Significant Increase in REA
- CET1 requirement estimated to increase by approx. DKK 15bn

# Ratings and funding plans

## S&P outlook changed to "Stable"

- The revised outlook was driven firstly by Nykredit issuing EUR 1bn of ALAC-eligible instruments in June and July...
- ... secondly by the extension of the maturity profile of the covered bond funding
- Nykredit has virtually eliminated covered bond funding with maturity below 2 years since 2014
- Nykredit was the first bank in Europe to issue bail-inable debt

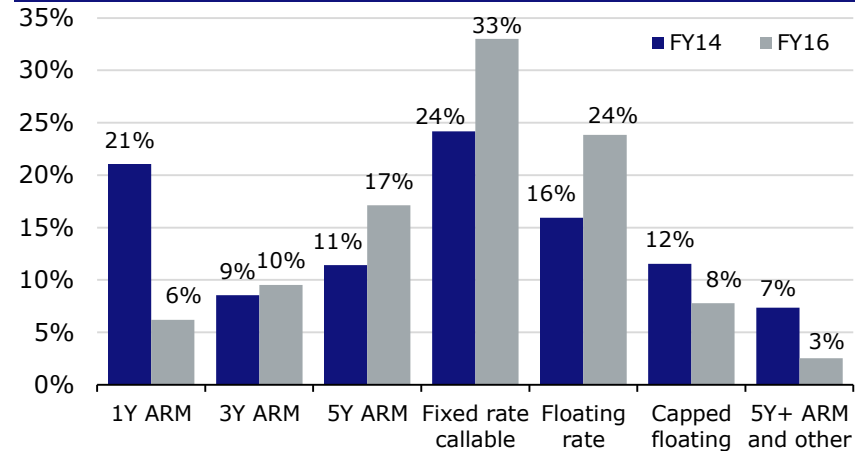


**Eurobond of the year**  
 €500m three-year  
 Senior Resolution Notes

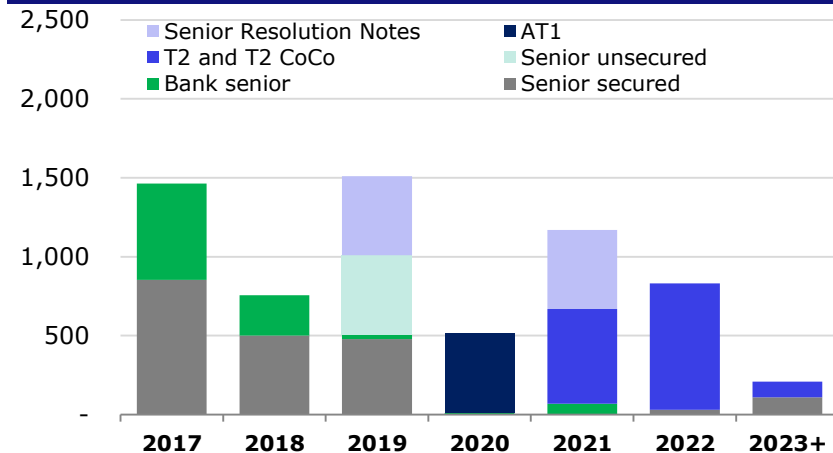
- Nykredit expects to issue another EUR 0.7 to 1.5bn of Senior Resolution Notes before end-2017
- With the issuance of Senior Resolution Notes other types of debt (senior secured and senior unsecured) will gradually be phased out

Source: Nykredit FY-2016 Report and Rating reports

## Nykredit loan portfolio composition progress



## Nykredit Group maturity profile, EURm





## Nykredit Group – financial ratios

	2013	2014	2015	2016
<b>Net interest margin, %</b> - Nykredit Realkredit Group	0.75	0.82	0.86	0.91
<b>Profit (loss) for the period</b> - As % pa of average equity	2.9	(0.5)	5.0	8.0
<b>Profit (loss) before tax for the period</b> - As % pa of average equity	3.3	(0.3)	7.5	10.0
<b>Profit from core business for the period</b> - As % pa of average equity	1.3	4.4	8.9	8.6
<b>Total assets, DKKbn</b>	1,417.4	1,457.3	1,383.8	1,400.6
<b>Risk Exposure Amount (REA), DKKbn</b>	346.0	358.6	311.2	349.3
<b>Leverage ratio, %</b>	-	-	4.4	4.6
<b>S&amp;P RAC ratio (June 2016), %</b>				11.2
<b>Distance to MDA, not fully loaded, DKKbn</b>			38.4	40.9
<b>Distance to MDA, fully loaded, DKKbn</b>			35.6	29.9
<b>Available Distributable Items (ADI), DKKbn</b>			26.2	29.8
<b>Total capital ratio, %</b>	18.9	18.2	23.9	23.0
<b>CET1 capital ratio, %</b>	15.8	15.4	19.4	18.8

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

Source: Nykredit FY-2016 Reports and Fact Book



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