Credit ratings of covered bonds – An issuer’s perspective

Morten Bækmand Nielsen
Head of Investor Relations

December 2012
### Nykredit’s long term ratings

<table>
<thead>
<tr>
<th><strong>STANDARD &amp; POOR’S</strong></th>
<th><strong>Fitch Ratings</strong></th>
<th><strong>Moody’s</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>AAA</td>
<td>Aaa</td>
</tr>
<tr>
<td>AA+</td>
<td>AA+</td>
<td>Aa1</td>
</tr>
<tr>
<td>AA</td>
<td>AA</td>
<td>Aa2</td>
</tr>
<tr>
<td>AA-</td>
<td>AA-</td>
<td>Aa3</td>
</tr>
<tr>
<td><strong>A+ (stable)</strong></td>
<td><strong>A+</strong></td>
<td><strong>A1</strong></td>
</tr>
<tr>
<td>A</td>
<td>A (stable)</td>
<td>A2</td>
</tr>
<tr>
<td>A-</td>
<td>A-</td>
<td>A3</td>
</tr>
<tr>
<td>BBB+</td>
<td>BBB+</td>
<td>Baa1</td>
</tr>
<tr>
<td>BBB</td>
<td>BBB</td>
<td>Baa2 (negative)</td>
</tr>
<tr>
<td>BBB-</td>
<td>BBB-</td>
<td>Baa3</td>
</tr>
<tr>
<td>BB+</td>
<td>BB+</td>
<td>Ba1</td>
</tr>
<tr>
<td>BB</td>
<td>BB</td>
<td>Ba2</td>
</tr>
<tr>
<td>BB-</td>
<td>BB-</td>
<td>Ba3</td>
</tr>
<tr>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>D</td>
<td>D</td>
<td>C</td>
</tr>
</tbody>
</table>
Agenda

- Introduction to Nykredit
  - A crash course in mortgage lending
  - What is a rating?
  - Rating of covered bonds
  - Nykredit’s rating considerations
Nykredit – the largest lender in Denmark

- Established as a mutual mortgage bank in 1851
- Today a full-service financial institution
- 30% of all domestic lending is provided by Nykredit
- Europe’s largest issuer of mortgage covered bonds
- 7th best capitalised bank in Europe (EBA stress test)
- Expected national SIFI

**Strategy statements**
- Denmark is the primary geographical focus
- Increase business volume through organic growth
- Continue developing mortgage lending and banking
- Continue cultivating cross-selling opportunities
- The Totalkredit partnership is strategically important

**Facts 2012 Q3**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>1.1mn</td>
</tr>
<tr>
<td>Staff</td>
<td>4,088</td>
</tr>
<tr>
<td>Equity</td>
<td>EUR 7.7bn</td>
</tr>
<tr>
<td>Total assets</td>
<td>EUR 193bn</td>
</tr>
<tr>
<td>Tier 1 capital</td>
<td>18.6%</td>
</tr>
<tr>
<td>Capital adequacy requirement</td>
<td>9.6%</td>
</tr>
<tr>
<td>Senior rating (S&amp;P / Fitch)</td>
<td>A+ / A</td>
</tr>
</tbody>
</table>

Note: SIFI = Systemically Important Financial Institution
Strategic market position in mortgage lending

**Nykredit**

Banking and non-retail mortgage business

- 55 branches
- Nykredit Direct
- Online

**Totalkredit**

Retail mortgage business

- 1000+ branches
- ~90 partnership banks

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- Strategic alliance with most Danish local and regional banks
- Nykredit and partner banks originates retail mortgage loans through Totalkredit
- Partner banks maintain credit risk on all loan amounts above 60% LTV

Mortgage loan portfolio

- EUR 82.9bn

Mortgage loan portfolio

- EUR 68.8bn

Source: Nykredit Realkredit Covered Bond Investor Report Q3 2012
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The basics of the system

Mortgage origination

Borrower

Mortgage deed

Mortgage proceeds

Mortgage bank

Covered bond

Proceeds from bonds

Investor

Payments

Principal and interest payment

Margin

Reserve fund payment if in arrears

Principal and interest payment
# Loan types and bond types standardised accross issuers

<table>
<thead>
<tr>
<th>Fixed Rate Mortgages</th>
<th>Adjustable Rate Mortgages</th>
<th>Floating Rate Mortgages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed rate callable annuity loans with or without interest-only periods</td>
<td>Adjustable-rate annuity loans with or without interest only periods</td>
<td>Capped or uncapped floating rate mortgage loans with or without interest only periods</td>
</tr>
<tr>
<td>▪ Funded by fixed rate callable bonds</td>
<td>▪ Funded by fixed rate non-callable bullet bonds</td>
<td>▪ Funded by capped or uncapped floating rate bonds respectively</td>
</tr>
<tr>
<td>▪ DKK-denominated</td>
<td>▪ DKK- or EUR-denominated</td>
<td>▪ Maturities: 5, 10, 20 and 30 years</td>
</tr>
<tr>
<td>▪ Maturities: 10, 15, 20 and 30 years</td>
<td>▪ Customer’s interest lock in period equals bond maturity</td>
<td>▪ With or without interest-only options (max 10 years)</td>
</tr>
<tr>
<td>▪ With or without interest-only options (max 10 years)</td>
<td>▪ Daily tap issuance combined with auctions in March, September and December</td>
<td>▪ Coupon based on CIBOR or EURIBOR</td>
</tr>
<tr>
<td>▪ Bonds tapped daily depending on the lending activity</td>
<td>▪ Bonds open for issuance until maturity</td>
<td>▪ Daily tap issuance combined with auctions in March, June September and December</td>
</tr>
<tr>
<td>▪ Bonds open for issuance for 3 years to build up volume</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Principle of Balance Mortgages

- Danish mortgage loans can always be redeemed by purchasing the corresponding bond at the market price and many can be called at par.

- Since the value of homes and the associated mortgage bonds tend to move in the same direction, Principle of Balance prevents homeowners from having negative equity in their homes.
Refinancing of Adjustable Rate Loans

- Loan term typically 20 or 30 years
- The customer’s interest fixing period is equal to the maturity of the bond issued to fund the loan
- At interest reset the loan rate is adjusted to the yield-to-maturity of the bonds sold for the purpose of refinancing plus a margin.
Strict underwriting standards

**Real estate**
- On site appraisal of all properties – maximum LTV determined by law
- Banks have access to detailed property data from public registers
- Land registry data, house price data and local knowledge
- Mortgage bank lending is stringently regulated by the Danish FSA

**Borrower**
- Sophisticated proprietary credit scoring model
- Nykredit demands household budget, payslips and income tax returns
- Negative credit register check (Experian)
- Customer must be able to afford fixed-rate 30Y amortising loan

**Legal and policy**
- Borrowers are personally liable for mortgage loans
- No financing of speculative buying – credit approval always based on ability to service debt
- Standard documentation eliminates legal uncertainty
- Flawless title and mortgage registration guaranteed by the government
Two-tier mortgaging

2nd tier

- Capital Centre I
  - AAA
  - € 0.1bn

1st tier

- Capital Centre E
  - AAA
  - € 43.9bn

- Capital Centre H
  - AAA
  - € 59.7bn

60% / 80% LTV

45% / 60% LTV

Loans funded to maturity

Funding shorter than loans

"Realkredit-obligationer" (ROs)

UCITS compliant covered bonds

"Særligt Dækkede Obligationer" (SDOs)

UCITS and CRD compliant covered bonds
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  - Rating of covered bonds
  - Nykredit’s rating considerations
What is a rating?

- ... an assessment of a debtor's likeliness to pay creditors (on time)

- Many investors are by law or internal investment guidelines required to adhere to rating restrictions when making investment decisions

- There are just 4 global rating agencies

  - FitchRatings
  - Moody's
  - Standard & Poor's

- The agencies are profit maximising companies charging both issuers and investors for their services

- Rating agencies take no legal responsibility for their ratings

  - “Ratings are opinions voiced under the protection of the freedom of speech…”
Rating scales for Moody’s

<table>
<thead>
<tr>
<th>Long term &gt; 1 year</th>
<th>Short term &lt; 1 year</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>Prime-1</td>
</tr>
<tr>
<td>Aa1</td>
<td></td>
</tr>
<tr>
<td>Aa2</td>
<td></td>
</tr>
<tr>
<td>Aa3</td>
<td></td>
</tr>
<tr>
<td>A1</td>
<td></td>
</tr>
<tr>
<td>A2</td>
<td>Prime-2</td>
</tr>
<tr>
<td>A3</td>
<td></td>
</tr>
<tr>
<td>Baa1</td>
<td></td>
</tr>
<tr>
<td>Baa2</td>
<td>Prime-3</td>
</tr>
<tr>
<td>Baa3</td>
<td></td>
</tr>
<tr>
<td>Ba1</td>
<td>Not Prime</td>
</tr>
<tr>
<td>Ba2</td>
<td></td>
</tr>
<tr>
<td>Ba3</td>
<td></td>
</tr>
<tr>
<td>...</td>
<td></td>
</tr>
<tr>
<td>D</td>
<td></td>
</tr>
</tbody>
</table>

Investment grade

Non-investment grade

"Junk"
**Triple-A or Triple-A?**

- **Senior unsecured rating**
  - Earnings, strategy, market share, capital, cash flow, liquidity ...

- **Covered Bonds rating**
  - Senior unsecured + value of collateral

- **Securitisation rating**
  - Legal structure, cash flow, collateral...
The structure of a covered bonds

- A covered bond is a debt instrument with a dual claim in case of the issuer’s insolvency:
  - On a segregated pool of high quality assets
  - On the issuing bank
- The ring fenced assets is referred to as the cover pool or the Capital Centre (in Denmark)
- Any assets over and beyond the amount of issued covered bonds is referred to as Over Collateral
- An issuer can have several cover pools

<table>
<thead>
<tr>
<th>The Bank In General</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital centre</strong></td>
</tr>
<tr>
<td>Assets</td>
</tr>
<tr>
<td>Eligible asset</td>
</tr>
<tr>
<td>- Mortgage loans</td>
</tr>
<tr>
<td>Over collateral = 8% of RWA + voluntary OC</td>
</tr>
</tbody>
</table>
Agenda

- Introduction to Nykredit
- A crash course in mortgage lending
- What is a rating?

Rating of covered bonds

- Nykredit’s rating considerations
Rating covered bonds

- First you assess the risk of the issuing bank and assign a senior unsecured rating...
- ... then you assess the risk factors in relation to the covered bonds
- S&P has identified 5 main risk factors

- The covered bond rating methodology focuses on credit risk and liquidity risk
- The other risk factors are assessed qualitatively or implicitly via the assessment of credit risk and liquidity risk
S&P’s five-step model

1. Assess Asset/Liability mismatch (ALMM)
2. Assess structure
3. Set maximum covered bond rating
4. Assess the cover pool
5. Rating of the covered bond program
S&P’s five-step model

Five Key Areas Of Standard & Poor’s Covered Bond Ratings Analysis

1. **Asset Risk**
2. **Cash Flow Risk**
3. **Legal Risk**
4. **Operational And Administrative Risk**
5. **Counterparty Risk**

**STEP 1:** ALMM Classification

- Zero
- Low
- Moderate
- High

**STEP 2:** Program Categorization

- Category 1
- Category 2
- Category 3

**STEP 3:** The Maximum Potential Covered Bond Rating

<table>
<thead>
<tr>
<th>ALMM risk</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zero</td>
<td>1</td>
</tr>
<tr>
<td>Low</td>
<td>2</td>
</tr>
<tr>
<td>Moderate</td>
<td>3</td>
</tr>
<tr>
<td>High</td>
<td>4</td>
</tr>
</tbody>
</table>

**STEP 4:** Cash Flow And Market Value Analysis

Determine target credit enhancement to achieve maximum potential ratings uplift.

**STEP 5:** The Covered Bond Rating

Compare target credit enhancement with available credit enhancement.
Rating the covered bond program

- The asset pool backing the issued covered bonds must be sufficient to cover any losses in a stress scenario.

- If the assets fullfills this criteria the covered bonds will be assigned the maximum rating (from step 3) – this amount of assets is refered to as the "target asset pool”

- The target asset pool includes:

  1. The loan portfolio

  2. Extra assets to cover credit risk
     Credit risk is calculated by stressing the loan portfolio

  3. Extra assets to cover any losses in relation to liquidation of the loan portfolio (from step 4).
     Includes costs related to ALM mismatches
Rating the covered bond program

- The senior unsecured rating is the starting point...

1. **Calculate maximum uplift**
   The maximum uplift is the lower of either the maximum covered bond rating (from step 3) or the number of notches to the maximum rating (AAA)

2. **Calculate the maximum uplift in relation to hedging of ALM mismatch**
   Hedging of credit risk will lead to a one-notch uplift. Hence the maximum uplift is reduced by one notch.

3. **Calculate sufficient amount of assets to fully cover ALM mismatches**
   The difference between the target asset pool and the liabilities (including assets needed to cover credit risk on the asset pool)

4. **Identify additional uplift factors**
   Calculate additional assets needed per uplift: Sufficient amount of assets (no. 3) divided by maximum uplift in relation to hedging of ALM mismatches (no. 2)

5. **Determine uplift**
   Actual amount of assets available for covering ALM mismatches divided by uplift factor (no. 4) = Number of rating notches uplift
   $$\Rightarrow \text{Covered bond rating}$$
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- What is a rating?
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Nykredit’s rating considerations
Nykredit’s rating considerations

- We must have (high) ratings
  - How high and how many?

- Ratings are costly both in terms of money and man power

- Trade off between the rating level and the costs
  - Extra collateral needed to achieve/maintain the target rating(s)
  - Restrictions on investments, liquidity etc.
  - Agility in developing the business
  - Relative rating vis-a-vis competitors
### How high and how many ratings?

<table>
<thead>
<tr>
<th></th>
<th>BRF</th>
<th>Nordea</th>
<th>Nykredit</th>
<th>RD</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>S&amp;P</td>
<td>Moody’s</td>
<td>S&amp;P</td>
<td>Moody’s</td>
</tr>
<tr>
<td>Jan. 2011</td>
<td>-</td>
<td>Aa1</td>
<td>AAA</td>
<td>Aaa</td>
</tr>
<tr>
<td>Dec. 2012</td>
<td>AAA</td>
<td>-</td>
<td>AAA</td>
<td>Aaa</td>
</tr>
</tbody>
</table>

- Rating differences is one of the factors driving prices differences in the bond market.
- A lower bond price affects the issuer’s competitiveness negatively due to the pass through funding model.
  - Lower bond price = higher cost of funds for the bank.
  - Interest rate for the home owner = bank’s cost of funds + margin.
- What happened to Moody’s...?
Moody’s: Negative view on Denmark and Nykredit

- Nykredit Realkredit is according to Moody’s definition not systemically important
  - only deposit takers qualify

- Positive factors
  - Market leader in mortgage lending
  - Capital
  - Risk profile

- Negative factors
  - Low Danish growth
  - Household indebtedness
  - Falling house prices
  - Bank package III/Amagerbanken/the state has the resources but lack the will to support the financial sector
  - Dependent on capital market funding
  - F1-loans and IO loans
  - Low and volatile earnings

- Nykredit Bank strategically important

- Refinancing risk drags down TPI
Household debt considerably offset by assets

- Household indebtedness remains high in a Nordic comparison...

- ... however, growth in debt off-set by growth in households assets

- Strong tax incentive in favour of pension savings rather than debt repayment
  - Both interest expenses and pension contributions are tax-deductible...
  - ... but a recent tax reform curbs pension contributions with tax benefits and reduces the tax deductibility of large interest expenses

- Households are therefore generally well consolidated...

- ... but obviously exposed to
  - Loss of employment income (Cash-flow)
  - Rising interest rates on financing
  - Falling asset prices

Source: Danmarks Nationalbank, quarterly publication Q1 11
House price development

(index: Q1/2000=100)

Source: Association of Danish Mortgage Banks and Nykredit
Indexed Loan-to-value (LTV)
Q3 2012

<table>
<thead>
<tr>
<th>EURbn</th>
<th>0-20%</th>
<th>20-40%</th>
<th>40-60%</th>
<th>60-80%</th>
<th>80-100%</th>
<th>Above 100%</th>
<th>Total</th>
<th>LTV¹, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner-occupied</td>
<td>27</td>
<td>25</td>
<td>21</td>
<td>14</td>
<td>4</td>
<td>1</td>
<td>93</td>
<td>74.8</td>
</tr>
<tr>
<td>Private</td>
<td>6</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>15</td>
<td>64.5</td>
</tr>
<tr>
<td>Non-profit²</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>9</td>
<td>-</td>
</tr>
<tr>
<td>Industry</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>48.4</td>
</tr>
<tr>
<td>Office</td>
<td>6</td>
<td>5</td>
<td>3</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>15</td>
<td>55.9</td>
</tr>
<tr>
<td>Agriculture</td>
<td>6</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>14</td>
<td>57.4</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>50.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>48</td>
<td>40</td>
<td>31</td>
<td>18</td>
<td>5</td>
<td>1</td>
<td>152</td>
<td>67.1</td>
</tr>
</tbody>
</table>

¹Average current LTV is calculated on the basis of the top LTV bracket for the loans granted by the Nykredit Realkredit Group.
²All mortgages granted in the non-profit housing segment are subject to special Danish legislation as well as public authority guarantees. Therefore, LTV figures do not give relevant risk information. Public authority guarantees currently amount to EUR 4.1bn in total.

Source: Nykredit Realkredit Covered Bond Investor Report Q3 2012
Increasing popularity of Adjustable Rate Mortgages

- Danish homeowners increasingly choose ARM’s to reduce borrowing costs
- Majority of homeowners are still protected against raising interest rates
- Issuers’ refinancing risk mitigated by strong investor base and well functioning bond market
Robust loan performance despite economic headwind

Retail delinquencies at 75 days, %

Delinquencies at at 75 days, %

Forced sales in Denmark

Repossessions, Nykredit Group

Nykredit Realkredit Group  Market

Stock  Stock, owner-occupied dwellings
## Losses ascertained as a percentage of debts outstanding

<table>
<thead>
<tr>
<th>Year</th>
<th>Owner-Occ.</th>
<th>Commercial</th>
<th>Agriculture</th>
<th>Rental housing</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>0.40%</td>
<td>1.05%</td>
<td>0.18%</td>
<td>0.16%</td>
<td>0.42%</td>
</tr>
<tr>
<td>1993</td>
<td>0.37%</td>
<td>1.86%</td>
<td>0.32%</td>
<td>0.19%</td>
<td>0.56%</td>
</tr>
<tr>
<td>1994</td>
<td>0.21%</td>
<td>1.51%</td>
<td>0.33%</td>
<td>0.17%</td>
<td>0.42%</td>
</tr>
<tr>
<td>1995</td>
<td>0.13%</td>
<td>1.26%</td>
<td>0.22%</td>
<td>0.07%</td>
<td>0.31%</td>
</tr>
<tr>
<td>1996</td>
<td>0.05%</td>
<td>0.61%</td>
<td>0.10%</td>
<td>0.09%</td>
<td>0.15%</td>
</tr>
<tr>
<td>1997</td>
<td>0.04%</td>
<td>0.46%</td>
<td>0.04%</td>
<td>0.01%</td>
<td>0.09%</td>
</tr>
<tr>
<td>1998</td>
<td>0.02%</td>
<td>0.37%</td>
<td>0.01%</td>
<td>0.01%</td>
<td>0.06%</td>
</tr>
<tr>
<td>1999</td>
<td>0.02%</td>
<td>0.15%</td>
<td>0.05%</td>
<td>0.00%</td>
<td>0.04%</td>
</tr>
<tr>
<td>2000</td>
<td>0.01%</td>
<td>0.16%</td>
<td>0.01%</td>
<td>0.01%</td>
<td>0.03%</td>
</tr>
<tr>
<td>2001</td>
<td>0.02%</td>
<td>0.05%</td>
<td>0.01%</td>
<td>0.01%</td>
<td>0.02%</td>
</tr>
<tr>
<td>2002</td>
<td>0.03%</td>
<td>0.13%</td>
<td>0.02%</td>
<td>0.01%</td>
<td>0.04%</td>
</tr>
<tr>
<td>2003</td>
<td>0.03%</td>
<td>0.02%</td>
<td>0.02%</td>
<td>0.01%</td>
<td>0.02%</td>
</tr>
<tr>
<td>2004</td>
<td>0.02%</td>
<td>0.07%</td>
<td>0.00%</td>
<td>0.01%</td>
<td>0.02%</td>
</tr>
<tr>
<td>2005</td>
<td>0.01%</td>
<td>0.06%</td>
<td>0.01%</td>
<td>0.00%</td>
<td>0.01%</td>
</tr>
<tr>
<td>2006</td>
<td>0.00%</td>
<td>0.03%</td>
<td>0.02%</td>
<td>0.00%</td>
<td>0.01%</td>
</tr>
<tr>
<td>2007</td>
<td>0.00%</td>
<td>0.04%</td>
<td>0.01%</td>
<td>0.01%</td>
<td>0.01%</td>
</tr>
<tr>
<td>2008</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>2009</td>
<td>0.02%</td>
<td>0.05%</td>
<td>0.00%</td>
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<td>2010</td>
<td>0.05%</td>
<td>0.09%</td>
<td>0.01%</td>
<td>0.03%</td>
<td>0.05%</td>
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<tr>
<td>2011</td>
<td>0.06%</td>
<td>0.13%</td>
<td>0.01%</td>
<td>0.04%</td>
<td>0.06%</td>
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<td>Q3 2012</td>
<td>0.06%</td>
<td>0.10%</td>
<td>0.07%</td>
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</tbody>
</table>
Volatile Over Collateral requirements made current Moody’s Aaa-model unsustainable for Danish issuers
Moody’s rating action on Danish banks

- Mid-April 2012, Nykredit terminated its cooperation with Moody’s due to:
  - Moody's volatile view of the Danish mortgage industry
  - Diminished significance of the ratings to Nykredit and to Nykredit's investors

- End-May, Moody’s downgraded 8 Danish banks and (on an unsolicited basis) Nykredit

- Key drivers for Moody’s rating actions…
  1. Difficult operating environment in Denmark
  2. Substantial market-funding reliance
  3. High household debt levels

  … and Nykredit specific
  4. Exposure to more volatile sectors (agriculture and commercial real estate) – despite the low loan loss and arrears ratios by international standards

- Nykredit has not seen any material market reactions on the back of Moody’s rating actions
S&P has a predominately positive view on Nykredit

- New rating methodology introduced in December 2011

- Nykredit’s senior unsecured rating unchanged
  - Stable outlook
  - One notch uplift due to risk profile
  - Two notch uplift for “high” systemic importance

- Positive factors
  - Market leader in mortgage lending, ...
  - Stabile core earnings
  - Dependence on capital market funding partly mitigated by well functioning bond market
  - Room for fiscal flexibility in Denmark

- Negative factors
  - Household indebtedness
  - Low margins on mortgage loans
  - Increasing volume of loans with refinancing risk
  - Low Danish growth

- Mortgage refinancing risk is incorporated in CB ratings via a slightly higher credit risk factor

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**Standard & Poor’s long term rating**

- **AA-**
- **A+**
- **A**
- **A-**
- **BBB+**
- **BBB**

**Group/systemic uplift**

**Stand-alone rating**

**Negative outlook**
Concluding remarks

- An issuer needs ratings in order to sell bonds at competitive spreads
- There are significant costs associated with high ratings
- The issuer needs to trade off benefits of a given rating with costs and business restrictions imposed by that rating
- Ultimately an issuer may choose to terminate the cooperation with a rating agency, but it is not a decision to take lightly
- Rating methodologies and sentiment change over time
Contacts and more information

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- Prospectuses
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- Bond data
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