

To NASDAQ OMX Copenhagen A/S
and the press

Nykredit's comments on Moody's downgrade

1 July 2011

Moody's placed Nykredit Realkredit and Nykredit Bank on review for possible downgrade on 14 April 2011. Moody's has today announced downgrades of Nykredit Realkredit A/S's and Nykredit Bank A/S's issuer ratings by one notch from A1 to A2. The downgrades also have implications for the ratings of hybrid capital, subordinated capital and junior covered bonds, cf the attached press releases from Moody's. Nykredit Realkredit A/S's and Nykredit Bank A/S's P-1 short-term ratings were affirmed.

Moody's press release does not address the possible implications for Nykredit's covered bond ratings. Moody's has also announced new overcollateralisation levels required in the capital centres to maintain the current covered bond ratings, cf Moody's press release on this subject. The new overcollateralisation levels do not take into account the changes to the capital centres that Nykredit announced on 21 June 2011. Discussions are ongoing between Nykredit and Moody's on the overcollateralisation levels needed in the light of the announced changes.

- The downgrade of Nykredit's ratings is unsatisfactory, but was expected given the downward pressure on ratings of financial institutions in general and in Denmark in particular, as well as the constraints on Nykredit's possibilities of raising administration margins, says Peter Engberg Jensen, Group Chief Executive of Nykredit.

- I have taken note that Moody's recognises Nykredit's latest steps to secure long-term financial stability, but await the tangible effects from these measures, says Peter Engberg Jensen.

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Rating Action: Moody's downgrades Nykredit Realkredit and Nykredit Bank to A2 (Denmark)

Global Credit Research - 01 Jul 2011

London, 01 July 2011 -- Moody's Investors Service has today downgraded Nykredit Realkredit A/S's issuer rating to A2 from A1 and the Tier 1 hybrid rating to Baa2(hyb) from Baa1(hyb), reflecting concerns over Nykredit Realkredit's long-term ability to maintain solid profitability levels. Moody's also affirmed Nykredit Realkredit's Prime-1 short-term debt rating.

At the same time, Moody's downgraded the long-term ratings of Nykredit Realkredit's subsidiary, Nykredit Bank, to A2 from A1. Nykredit Bank's junior subordinated programme rating was downgraded to (P)Baa1 from (P)A3, and the Tier 1 Hybrid rating was downgraded to (P)Baa2 from (P)Baa1. Nykredit Bank's standalone credit strength (also referred to as the baseline credit assessment (BCA)) was lowered to Baa2 from Baa1, which is mapped from its C- bank financial strength rating (BFSR).

Nykredit Bank's Prime-1 short-term debt and deposit rating was affirmed and the outlook is negative on all the ratings of both Nykredit Realkredit and Nykredit Bank.

These rating actions conclude the review for downgrade on Nykredit Realkredit's ratings, which Moody's implemented on 14 April 2011. This press release does not address the possible implications for Nykredit Realkredit's mortgage and covered bond ratings.

In addition, Moody's has corrected an earlier oversight regarding Nykredit Bank's junior subordinated and hybrid Tier 1 ratings. Moody's is relabeling the seniority that previously was labeled "Subordinate MTN" as "Junior Subordinate MTN". While the rating history for this seniority remains correct, as noted above, the rating on this record is being downgraded today to (P) Baa1, equal to the adjusted BCA, minus two notches. Please see the "Programme Rating Relabeling and Corrections" section below for the corrected rating history.

RATINGS RATIONALE: NYKREDIT REALKREDIT

Today's rating actions primarily reflect Moody's concerns over Nykredit Realkredit's longer-term ability to maintain solid profitability levels. As a mortgage-credit institution, its core profitability is moderate and intrinsically vulnerable to negative, unpredictable movements in its mark-to-market bond operations. Group pre-provision income equalled 0.9% of risk-weighted assets on a three-year average 2008-2010, ranging from 0.14% in 2008 to 1.48% in 2009 and falling to 1.03% in 2010. The institution's asset quality remains strong, but has deteriorated in recent years. Including the loans from the acquired Forstaedernes bank, the Group's problem loans increased to 1.27% of gross loans in 2010 from below 0.05% pre-crisis in 2007. Moody's expects problem loans to remain elevated, reflecting the weakened Danish economy and fragile property-market prices.

Moreover, as Nykredit Realkredit is ultimately owned by a foundation, its ability to raise capital when needed is restricted. In light of this, and its moderate profitability, we view as credit negative the fact that in December 2010 the Competition Appeals Committee upheld the decision of the Danish Competition Council to prohibit the mortgage lender from raising its administration margins on private mortgage loans originated by Nykredit Realkredit. Moody's positively notes Nykredit Realkredit's announcement of 21 June regarding initiatives aimed at addressing this obstacle -- including granting loans via Totalkredit, so that administrative margins can be raised. While these initiatives may partly resolve this issue over time, we would have to see tangible effects before they exerted positive pressure on the ratings.

The negative outlook on Nykredit Realkredit's ratings reflects the continued weak operating environment and the institution's reliance on profits to expand the capital buffer against possible losses in case of need. We expect that low levels of new mortgage lending, driven by fragility in the Danish mortgage market and weak property prices, will continue to exert downward pressure on profitability in the coming 1-2 years. Further pressure on the already modest profitability margins of the Danish mortgage sector, including that of Nykredit Realkredit, can derive from increases in the need for over-collateralisation funded at elevated interest rates if property prices decrease, which Moody's considers more probable as interest rates increase going forward. This is because the Danish mortgage sector has become increasingly reliant on newer style covered bonds (SDOs & SDROs). These bonds require that loan-to-value (LTV) ratio limits are maintained for the lifetime of the loan, as opposed to traditional mortgage bonds (ROs) where the LTV ratio limit only needs to be maintained at the point of origination. Moody's takes some comfort from Nykredit Realkredit's recent announcement that addresses the funding mix between SDOs and ROs, but notes that the resulting benefit will take some time to become effective.

NYKREDIT BANK

The lowering of Nykredit Bank's BCA to Baa2 from Baa1 reflects Moody's view that market funding for the bank will become more expensive and more difficult to acquire, following the application of Bank Package III in February this year. Furthermore, the bank's non-performing loans (NPLs) in relation to total gross loans remain high, at around 12% as of Q1 2011. NPLs are defined as gross impaired loans subject to individual impairment, and include those in the acquired Forstaedernes bank portfolio.

Set against that, Moody's notes that the 70% provision coverage ratio of the NPLs provides the bank with a buffer to absorb future losses. Moreover, the bank's capitalisation is satisfactory, with Tier 1 capital and total capital ratios of 15.9% and 16.4%, respectively, compared with a reported individual solvency requirement of 10.2% as of Q1 2011.

The A2 long-term debt and deposit ratings of Nykredit Bank continue to benefit from three notches of parental support uplift from the Baa2 BCA. This uplift reflects Moody's view that Nykredit Realkredit is highly likely to support the bank in case of need. The parent has issued a declaration of intent to provide the capital required to maintain the bank's Tier 1 capital at a minimum of 12-13% and has formally underwritten any impairment losses and provisions that exceed 2% of loans, advances and guarantees (subject to a maximum of DKK2 billion).

The negative outlook on Nykredit Bank's BCA reflects our expectation that funding and asset quality will continue to weigh on the bank's performance. The negative outlook on the bank's supported debt and deposit ratings, and junior subordinated and hybrid Tier 1 ratings reflects the negative outlook on the bank's parent, Nykredit Realkredit.

PROGRAMME RATING RELABELING AND CORRECTIONS

As discussed above, Moody's has relabeled the subordinate seniority on Nykredit Bank's EMTN programme from "Subordinate MTN" to "Junior Subordinate MTN".

At the same time, Moody's is correcting the rating history for the Tier 1 hybrid rating. Please note Moody's no longer records hybrid ratings on EMTN Programmes. The correct rating history is as follows:

4 December 2007: A2 assigned

22 July 2009: A2 on review for possible downgrade

8 September 2009: Downgraded to A3

18 November 2009: A3 on review for possible downgrade

26 February 2010: Downgraded to Baa1

27 August 2010: Convert to programme rating (P)Baa1

14 April 2011: (P)Baa1 on review for possible downgrade

1 July 2011: Downgraded to (P)Baa2

PREVIOUS RATING ACTION & METHODOLOGIES USED

Please see ratings tab on the issuer/entity page on Moodys.com for the last rating action and the rating history.

The principal methodologies used in rating Nykredit Realkredit A/S and Nykredit Bank A/S are "Bank Financial Strength Ratings: Global Methodology", February 2007, "Analysing the Credit Risks of Finance Companies", October 2000 and "Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology", March 2007.

Both institutions are headquartered in Copenhagen, Denmark. At the end of March 2011, Nykredit Realkredit A/S and Nykredit Bank A/S reported total assets of DKK1,145 billion (EUR154 billion) and DKK199 billion (EUR27 billion), respectively.

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