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Research Update:

Denmark-Based Nykredit Bank A/S Assigned 'A+/A-1' Ratings; Outlook Stable

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Rationale

On Nov. 5, 2008, Standard and Poor's Ratings Services assigned its 'A+' long-term and 'A-1' short-term counterparty credit ratings to Denmark-based Nykredit Bank A/S. The outlook is stable.

The ratings reflect the bank's status as a core subsidiary of Nykredit Realkredit A/S (A+/Stable/A-1). In addition, they reflect expected parental support, primarily in the form of capital injections, as well as access to a strong brand name and customer base. Accordingly, we have equalized the ratings on Nykredit Bank with those on the parent by incorporating a two-notch uplift to the stand-alone ratings on the bank. The stand-alone ratings reflect the bank's strong asset quality and adequate profitability. The ratings are constrained by the bank's low level of geographic diversity, its dependence on capital market-related revenues, and its sizeable exposure to single names.

Established in 1994 and with total assets of Danish krone (DKK) 145.5 billion (\$25.1 billion at DKK5.8 to \$1) on June 30, 2008, Nykredit Bank is the fifth-largest bank in Denmark by assets. It has a 4% share of the country's non-mortgage lending market and, in 2007, the bank contributed about 28% of the group's operating profit. The bank is wholly-owned by Nykredit Realkredit, the leader in Denmark's mortgage lending market, with a 40% share. Nykredit Bank is perceived by group management as the main source of future growth for the group. Through the strong Nykredit brand name, the bank has massive cross-selling potential to Nykredit's existing mortgage customers.

The bank's good asset quality reflects the group's conservative credit risk policies, both in terms of customer assessment and loan-to-value policies. As at June 30, 2008, it reported gross nonperforming assets equivalent to 0.33% of total gross loans. One-quarter of its lending book is composed of domestic guarantees or international bridge financing provided to mortgage customers subsequently transferred to the parent, which bears the entire credit risk in such transactions. Similarly to the group's asset quality, actual loan losses, and provisioning for bad and doubtful debt have been at record low levels during the past five years. We expect the bank to experience increased losses in the near future given an ongoing slowdown in construction and real estate activity and the Danish economy in general.

We consider the bank's profitability to be adequate. It has delivered stable returns over the past four years with net income to average assets between 0.4%-0.6%. However, this dropped to 0.28% in the first six months of 2008, as a result of lower capital market-related revenue and proprietary trading losses. In 2007 and the first half of 2008, 40%-50% of the bank's pre-tax profits came from its capital market-related operations. We believe this business segment will remain inherently volatile and may come under further pressure during the ongoing economic slowdown as capital market-related transactions decrease.

We consider Nykredit Bank's capitalization to be satisfactory. Capitalization is managed at the group level and the bank's ratios are not as strong as those of the wider group. As at June 30, 2008, the bank reported a Tier-1 regulatory capital ratio of 6.9% compared with 8.4% at year-end 2007. The sharp decline is due to an increase in risk weighted assets and higher capital charges for operational risk and undrawn credit facilities under new Basel II transitional rules.

Outlook

The outlook for Nykredit Bank reflects the outlook for the parent given the bank's core status within the group. However, the ratings could diverge from the ratings of the parent if our assessment of Nykredit Bank's status within the group or the level of parental support changes. On a stand-alone basis, we expect some pressure on the bank's profitability in 2009 as a result of weaker business prospects for the real estate and construction sectors, higher provisioning needs, and volatile markets.

A significantly higher than expected deterioration in the bank's asset quality would lead to a weakening of its stand-alone credit profile. Conversely, a strengthening of the bank's franchise and business mix and performance would be beneficial for its stand-alone creditworthiness providing it preserves its asset quality.

Ratings List

New Ratings

Nykredit Bank A/S

| | |
|----------------------------|---------------|
| Counterparty Credit Rating | A+/Stable/A-1 |
| Certificate Of Deposit | A+/A-1 |

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