Nykredit

To NASDAQ OMX Copenhagen A/S
and the press

Nykredit introduces two-tier mortgaging for commercial customers

26 March 2009

To be able to continue offering mortgage loans within the current LTV limits at market-driven and transparent prices, Nykredit introduces two-tier mortgaging for commercial customers. Nykredit thus contributes to securing financial stability, offering the most attractive mortgage rates possible in a market characterised by financial risk.

As from 30 March 2009, Nykredit introduces two-tier mortgaging for the financing of commercial properties. In future, all new loans secured on commercial properties will be a combination of SDO loans and traditional mortgage bond (RO) loans. The part of a loan which in a typical commercial property is secured by mortgage on 0 to 45% of the property value will be funded by SDOs, while the top part will be funded by ROs. The top part of the loan will only be offered as a repayment mortgage. Where the LTV limit is 80%, the SDO loan may amount to 60%. For further details on the implementation of two-tier mortgaging, see the Appendix below.

In accordance with EU rules, Danish SDO legislation stipulates that mortgage banks must provide supplementary security to bond investors if the value of mortgaged properties decreases, and LTV ratios of the loans exceed the stipulated LTV limits. This requirement applies on a permanent basis to SDOs, but not to ROs. As a result of the SDO legislation, Nykredit therefore has to issue so-called junior covered bonds, using the proceeds to provide security for loans secured on properties that are subject to considerable price declines.

This is an inexpedient and expensive solution – especially in relation to properties showing substantial price fluctuations.

Two-tier mortgaging means that the overall yield-to-maturity of the combined bond issues will be slightly higher. But the uncertainty and costs of having to provide additional security if property prices fall will be eliminated, and the reduced cost will benefit customers, who will continue to have access to the most attractive mortgage rates possible.

– By using ROs for a small part of customers' loans, we obtain a solution enabling Nykredit Commercial Customers to continue offering attractive financing.

Nykredit Realkredit A/S
Kalvebod Brygge 1-3
DK-1780 Copenhagen V
Tel +45 44 55 10 00
Fax +45 44 55 19 73
www.nykredit.com

Customers obtain transparent and market-driven prices reflecting the extraordinary risk in financial markets. Also, the solution helps counteract increasing mortgage loan prices in the long run, says Karsten Knudsen, Group Managing Director.

For further information, please contact Karsten Knudsen, Group Managing Director, tel +45 44 55 18 31, or Nels Petersen, Head of Corporate Communications, tel +45 44 55 14 70/+45 20 22 22 72. For details on the bonds, please contact Henrik Hjortshøj-Nielsen, Executive Vice President, tel +45 44 55 10 40.

APPENDIX

- Nykredit reintroduces two-tier mortgaging for all commercial properties except non-profit housing from 30 March 2009.
  - In future, the top part of new loans secured on commercial properties will be funded by the issuance of ROs out of a new Capital Centre G. The remaining funding is obtained through the issuance of SDOs.
  - Five series will be opened in Capital Centre G (ROs with a 20% risk weighting).

- It will be possible to refinance existing mortgage loans secured on commercial properties in Capital Centre D into new loans issued out of the same capital centre.
  - Nykredit will open five new series in Capital Centre D (ROs with a 20% risk weighting).
  - These series may be used for refinancing purposes only.

- Two-tier mortgaging will enable Nykredit to continue offering unrestricted commercial property finance.
  - The need to provide supplementary security for loans based on SDOs is reduced significantly.
  - Nykredit's need to issue junior covered bonds will fall by approx 30%.

A prospectus for the issuance of ROs out of Nykredit's Capital Centre G and the final terms for issuance of the new ROs out of Capital Centres D and G will be published on 27 March 2009.

Nykredit reintroduces two-tier mortgaging for commercial properties
Nykredit has decided to introduce two-tier mortgaging for commercial properties except non-profit housing. Loans offered from 30 March 2009 will be in two parts. The first part – which constitutes 75% of the maximum mortgage limits – will be based on existing SDOs issued out of Capital Centre E. The second part – which constitutes the top 25% of the maximum mortgage limits – will be based on ROs issued out the new Capital Centre G.

At end-2008, Nykredit had granted DKK 273bn-worth of mortgage loans for the financing of commercial properties, except non-profit housing. As all loans are gradually refinanced into two-tier mortgages, the issuance of ROs may in the very long term constitute up to 25% of the commercial loan portfolio, equivalent to DKK 70bn. In the short to medium term, the volume issued out of Capital Centre G is expected to be considerably lower, as many commercial loans will remain in Capital Centre D, see below.

The table below shows the implementation of two-tier mortgaging in relation to different types of properties.

	SDO LTV range	RO LTV range
Rental housing	Up to 60%	60-80%
Non-subsidised housing societies	Up to 60%	60-80%
Agriculture	Up to 45%	45-70%
Industry and trades	Up to 45%	45-60%
Office and retail	Up to 45%	45-60%
Social/cultural purposes 1)	Up to 45%	45-60%
Non-profit housing	SDOs only (unchanged)	

1) In connection with government regulation/guarantees, loans may be funded by SDOs and ROs up to an LTV limit of 80%.

However, there will be a minimum limit of DKK 0.5m per loan. This rule is introduced to make customer services as efficient as possible. Loans may be issued out of Capital Centre G starting at an LTV ratio lower than 45%.

Under the Danish mortgage legislation, certain types of commercial properties financed by RO-funded loans may be valued according to the going concern principle. Market valuation will remain the leading principle, with Nykredit's credit policy continuing to apply, and there are no plans to use two-tier mortgaging to raise mortgaging limits.

Nykredit will open five bond series in the new Capital Centre G to fund the top part of loans:

Bond	Currency	Maturity	ISIN
1Y	DKK	1 April 2010	DK0009773574
2Y	DKK	1 April 2011	DK0009773657
1Y	EUR	1 April 2010	LU0418537782
2Y	EUR	1 April 2011	LU0418537949
6% callable annuity	DKK	2041	DK0009773731

The new ROs issued out of Capital Centre G will be listed on NASDAQ OMX on 1 April. The bonds comply with the requirements of Article 22(4) of the UCITS Directive and are of "gilt-edged" quality to life insurance companies and pension funds. The bonds have a risk weighting of 20% for credit institutions, as they do not meet the requirements for covered bonds as defined in the Capital Requirements Directive.

The bonds are eligible as collateral for loans with Danmarks Nationalbank.

Nykredit's newest capital centres have all been rated by Moody's and S&P. On opening, Capital Centre G will have no rating, as a rating cannot be meaningfully assigned until the capital centre has a loan portfolio of a certain size.

Commercial loans in Capital Centre D may only be refinanced into new loans within the same capital centre

Nykredit has decided that existing commercial loans in Capital Centre D (loans granted from 2002 until end-2007) may in future be refinanced into new loans issued out of the same capital centre.

Since the end of 2007, Nykredit has in practice used Capital Centre E to issue bonds in connection with the granting of new loans and refinancing. In future, a number of commercial loans already in Capital Centre D will remain in this capital centre after refinancing.

Nykredit will open five bond series in Capital Centre D to fund existing loans in the capital centre in connection with refinancing:

Bond	Currency	Refinancing	Maturity	ISIN
1Y	DKK	1 April	2010	DK0009773814
2Y	DKK	1 April	2011	DK0009774036
1Y	EUR	1 April	2010	LU0418539135
2Y	EUR	1 April	2011	LU0418540653
5% callable annuity	DKK	-	2041	DK0009774119

The new ROs issued out of Capital Centre D will be listed on NASDAQ OMX on 1 April. The bonds comply with the requirements of Article 22(4) of the UCITS Directive and are of "gilt-edged" quality to life insurance companies and pension funds. The bonds have a risk weighting of 20% for credit institutions, as they do not meet the requirements for covered bonds as defined in the Capital Requirements Directive.

The bonds are eligible as collateral for loans with Danmarks Nationalbank.

Like the other bonds in Capital Centre D, the ROs will be rated Aaa/AAA by Moody's and S&P.

Two-tier mortgaging enables Nykredit to continue offering unrestricted commercial property finance

SDO legislation requires Nykredit to monitor compliance with LTV limits on a current basis. If an LTV limit is exceeded as a result of falling property prices and/or rising bond prices, Nykredit must provide supplementary security for the part of an SDO-based loan that exceeds the relevant LTV limit.

At end-2008, Nykredit had provided supplementary security of DKK 4.9bn in connection with SDO-funded lending out of Capital Centre E, of which DKK 4.5bn for commercial loans. Nykredit issues junior covered bonds to fund the supplementary security. At present, Nykredit's issuance of junior covered bonds totals DKK 13bn, which implies considerable net interest expenses.

The introduction of two-tier mortgaging to finance commercial properties reduces the need to issue junior covered bonds significantly – particularly in the event of a stress scenario with heavily declining property prices.