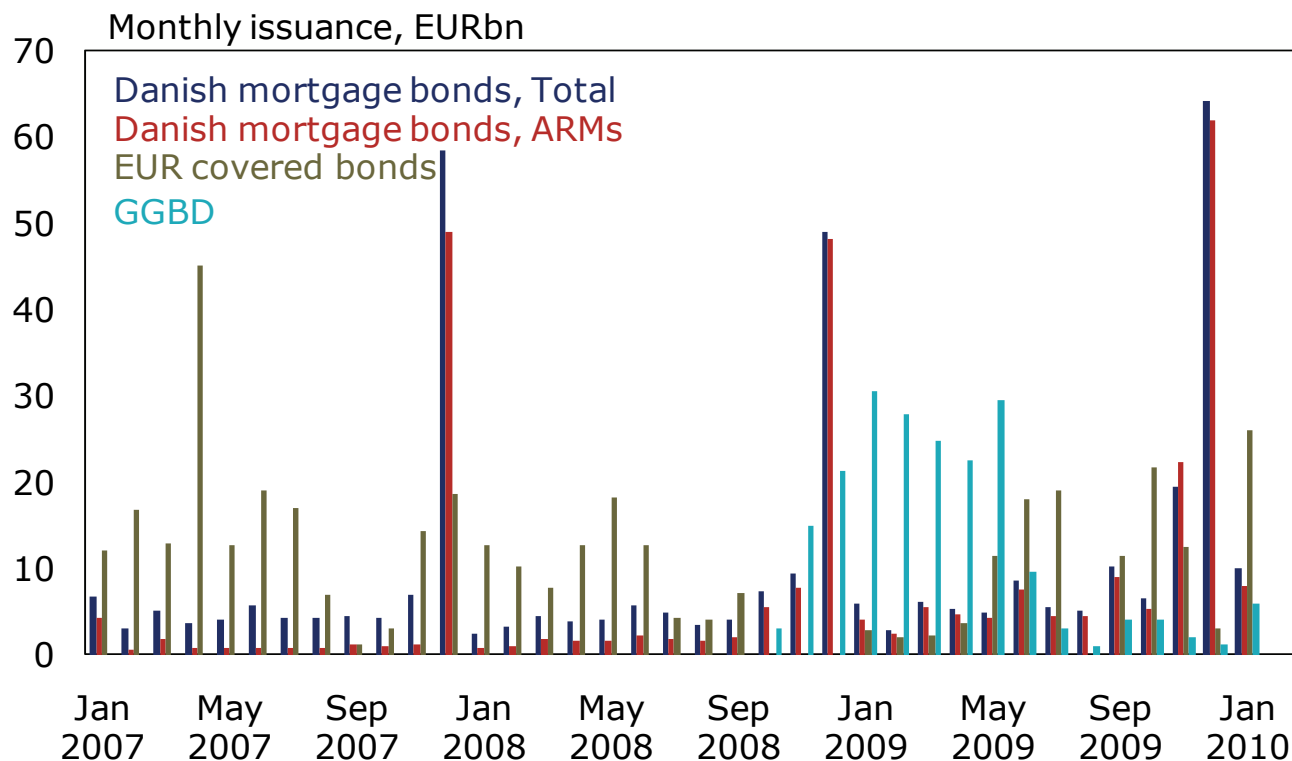


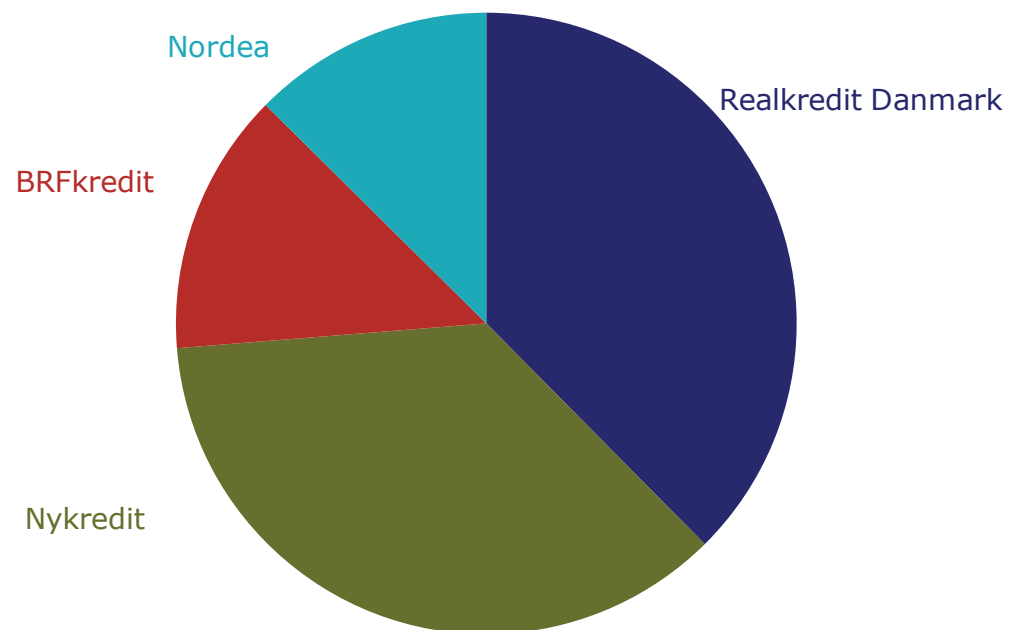
The world's largest covered bond auction

Rune Brinch Kristensen
Nykredit Markets
Head of Fixed Income & Derivatives Research
The Euromoney Bond Investors Congress 2010

Huge amounts in a European context



Four large issuers in a uniform market



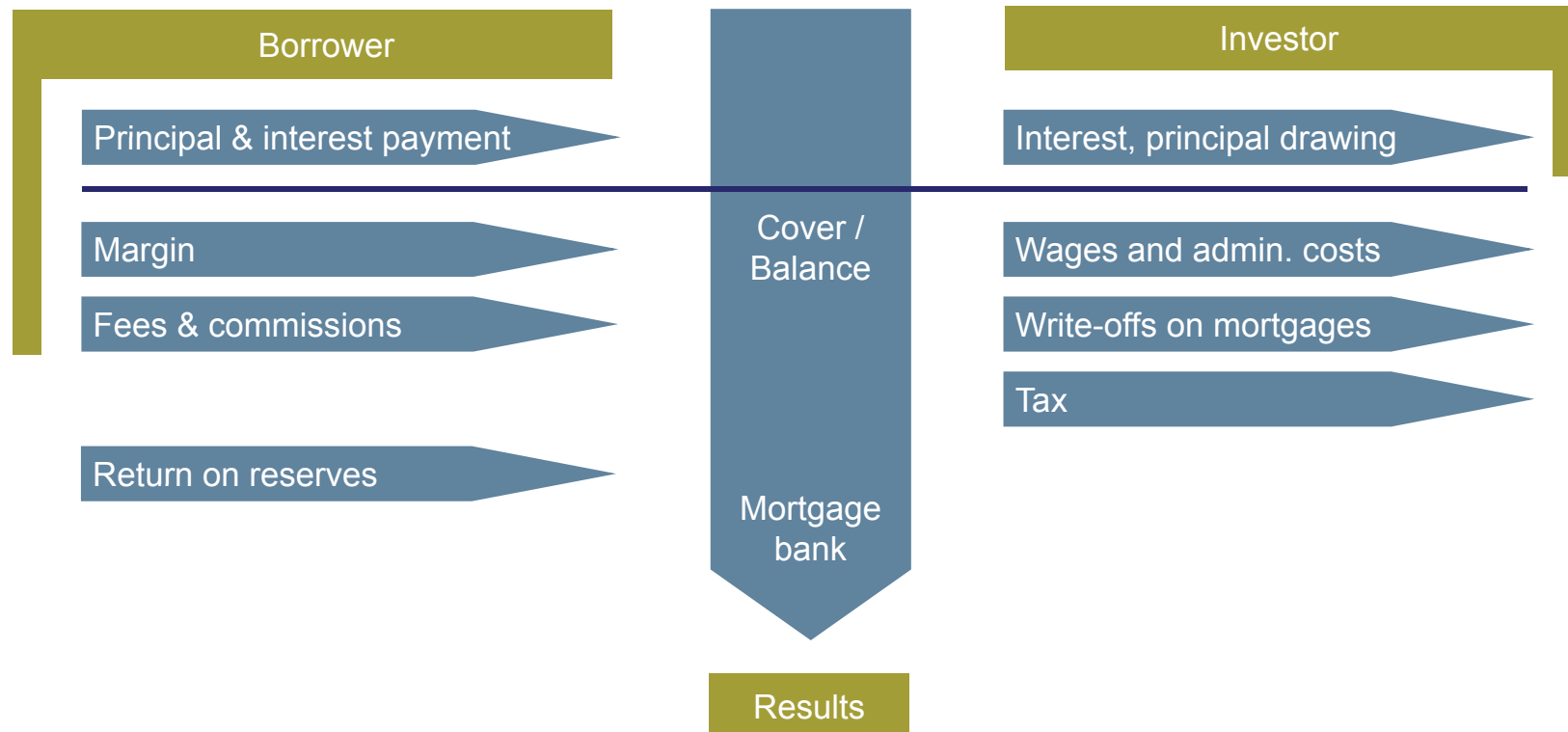
Dominated by local currency issues

Euro (bn)	Danish kroner (bn)	Euro equivalent (bn)
-	938	126
21	-	21
-	-	147

Jumbo size covered bond market

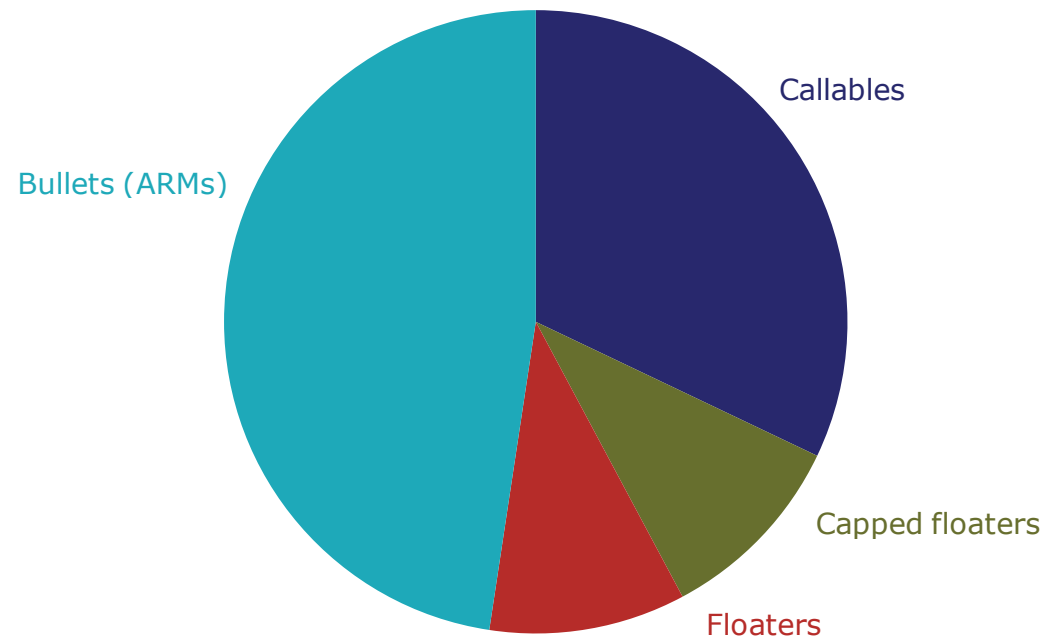
- 28 jumbo size bonds
- 4 denominated in euro
 - Average size: EUR 4.3bn
 - Total amount outstanding: EUR 11bn
- 24 denominated in Danish kroner (DKK)
 - Average size: EUR 4.1bn
 - Average of three largest bonds: EUR 13.1bn
 - Total amount outstanding: EUR 98bn

Eliminating balance sheet risk



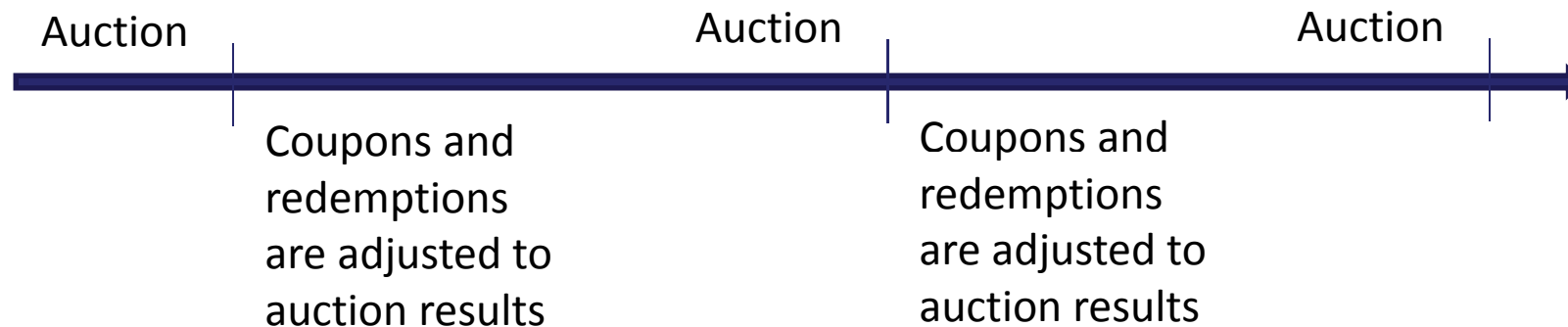
Four main products

Adjustable Rate Mortgages (ARMs) account for 48%

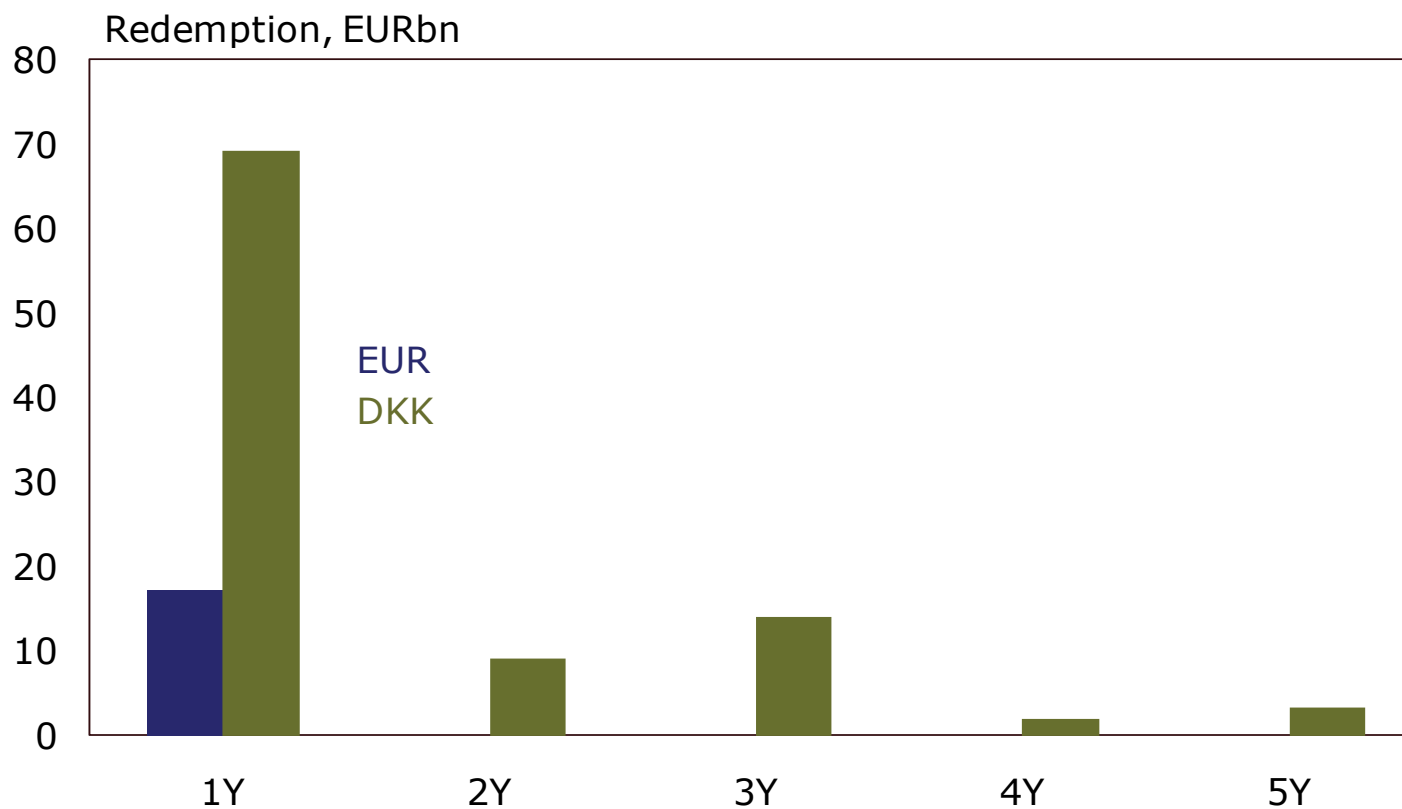


Market risk on ARMs is transferred to borrowers

- Loan rate is fixed to market rates of mortgage bonds on a regular basis
- New rates are determined at fixed bullet auctions
- Principal payments on annuity loans are recalculated to market rates
- December is the prime auction month



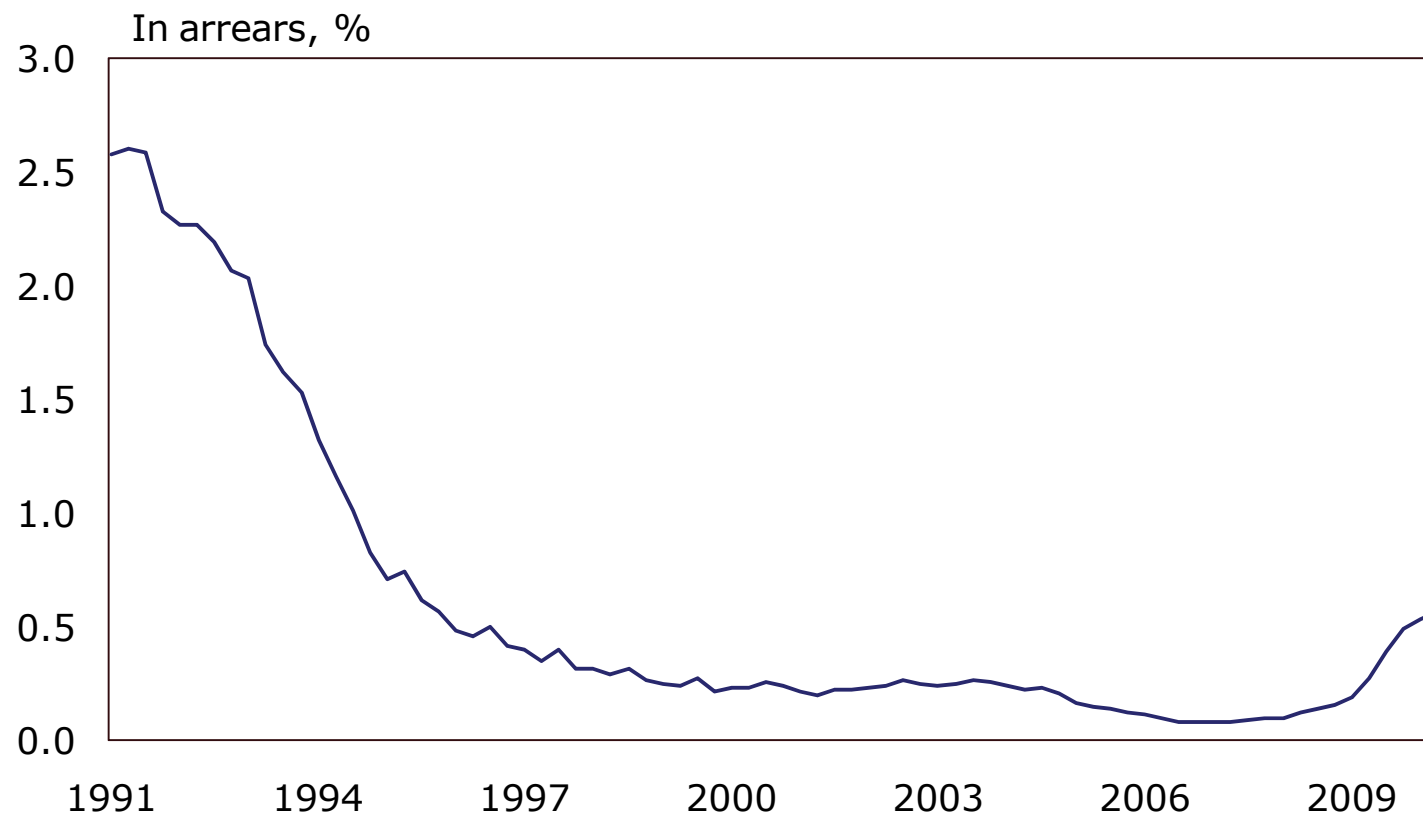
Maturity profile – reflecting borrowers reset periods



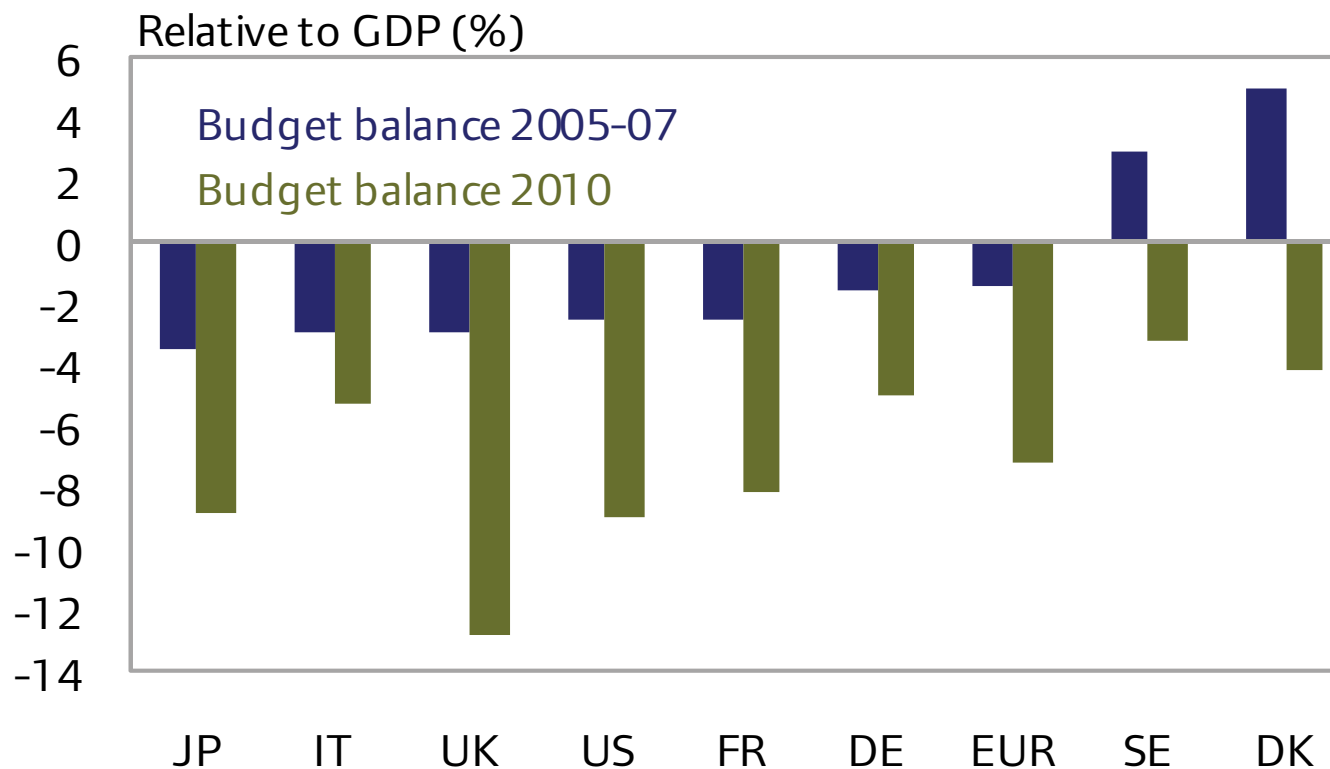
Economy I: Unemployment is rising ...



Economy II: ... and so are in arrears ...



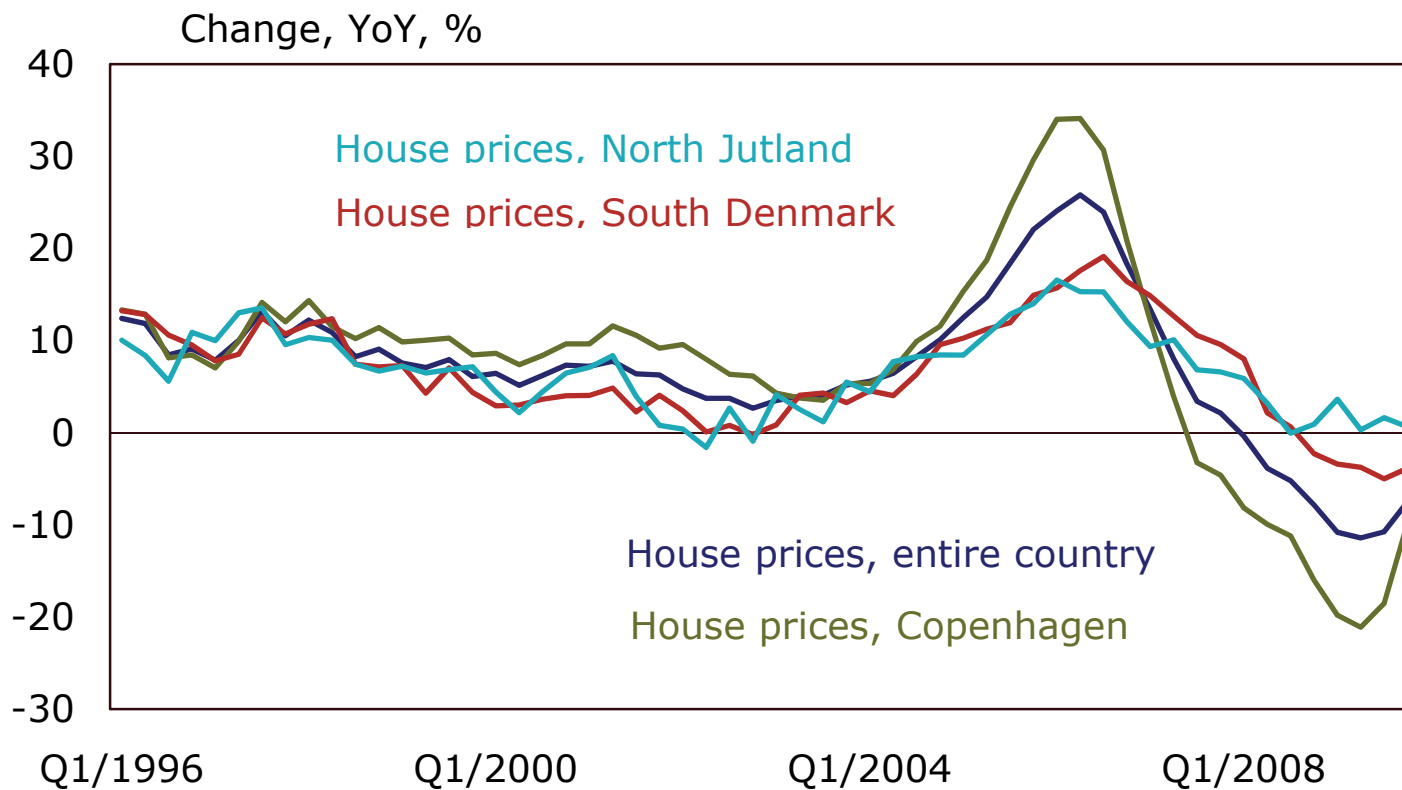
Economy III: Timely action reduces pressures ...



Economy IV: ... and the debt to GDP ratio is at a low level



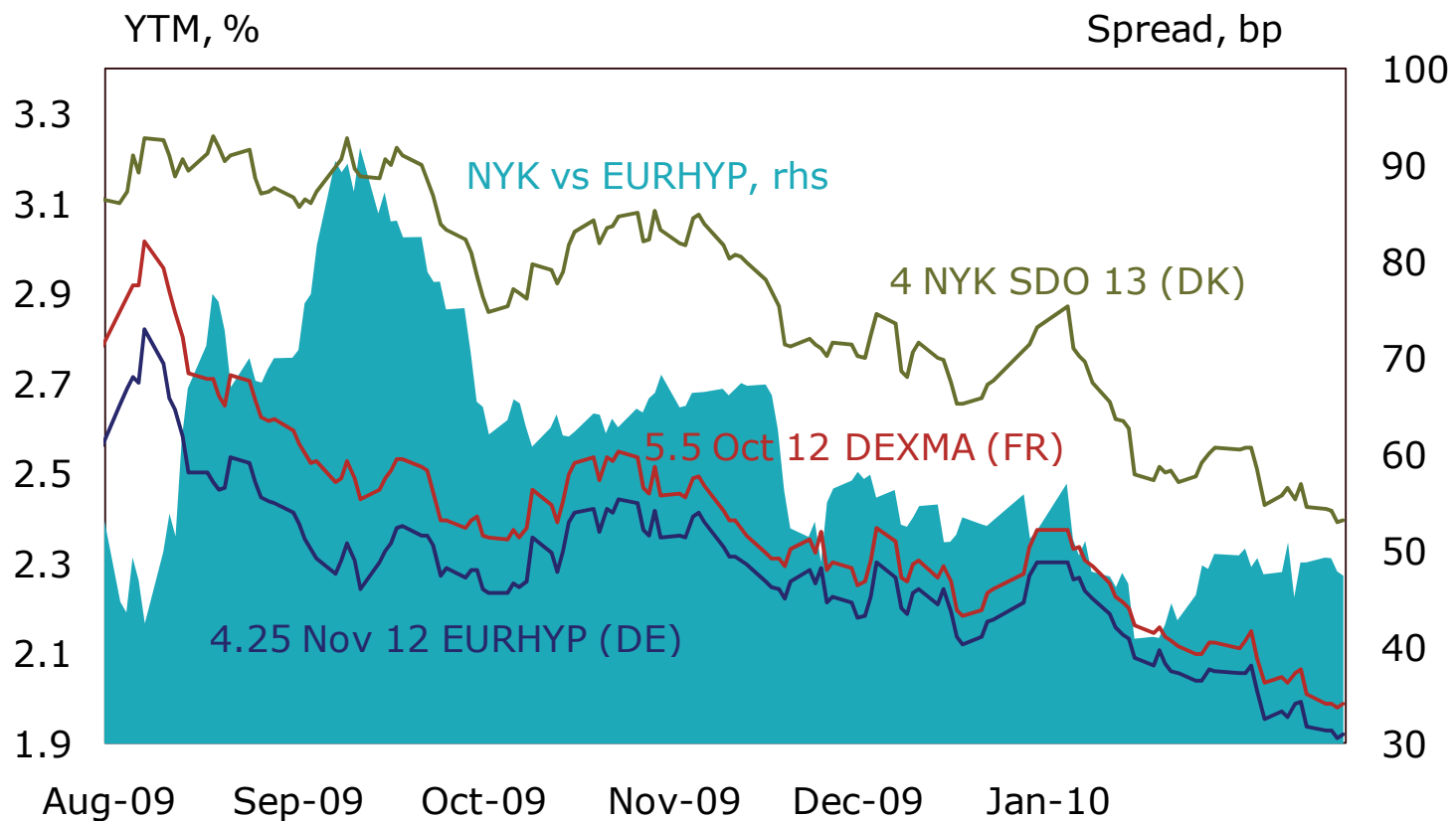
Economy V: Housing market at a turning point ...



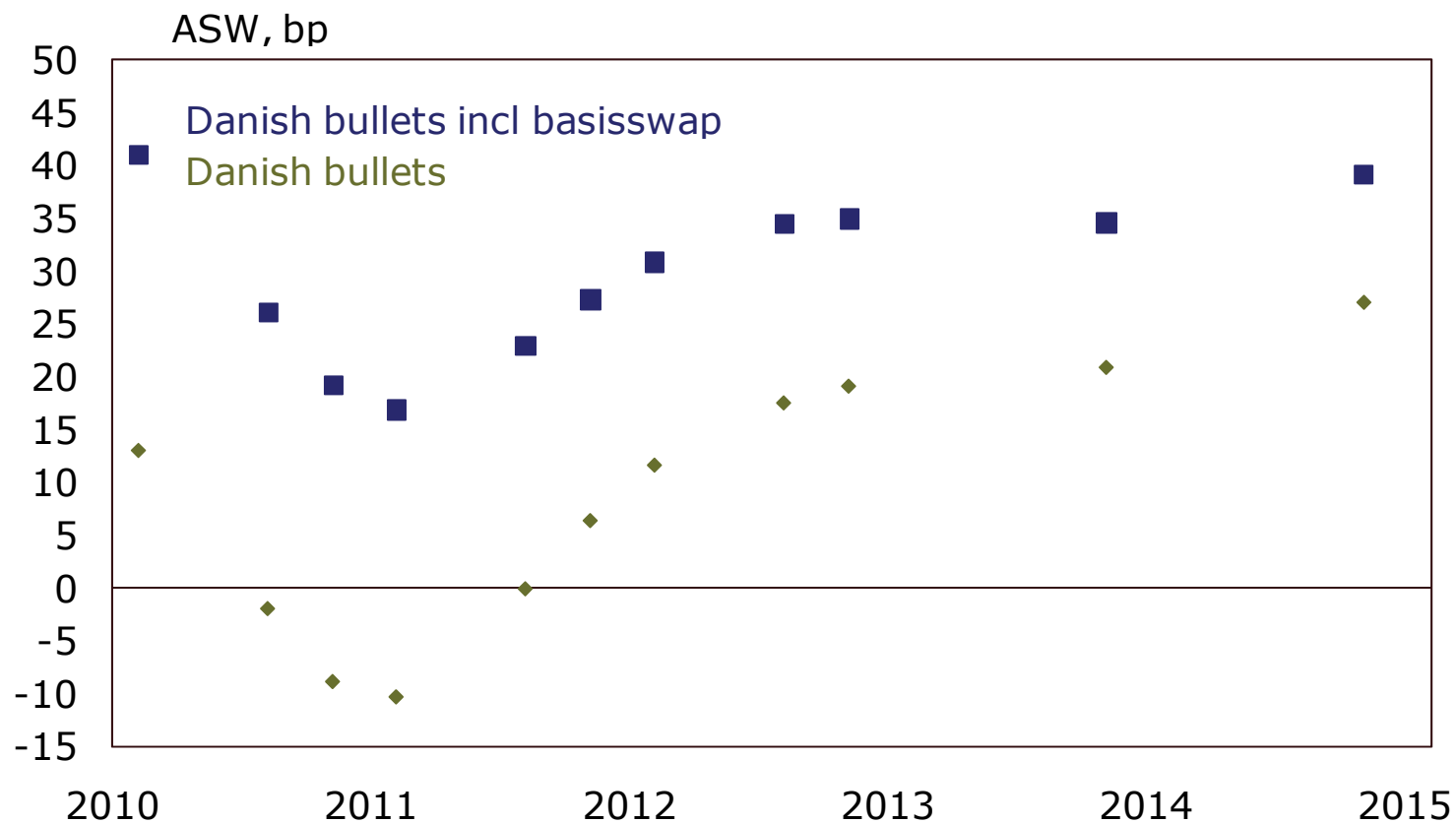
Repo eligibility

- EUR-denominated bonds issued out of Luxembourg are eligible for open market operations with the ECB as well as Danmarks Nationalbank (NCB)
- DKK-denominated bonds are repo-eligible with the NCB
- The lending rate of the NCB is currently 1.05% (5bp above ECB)
- NCB is tracking euro market rates

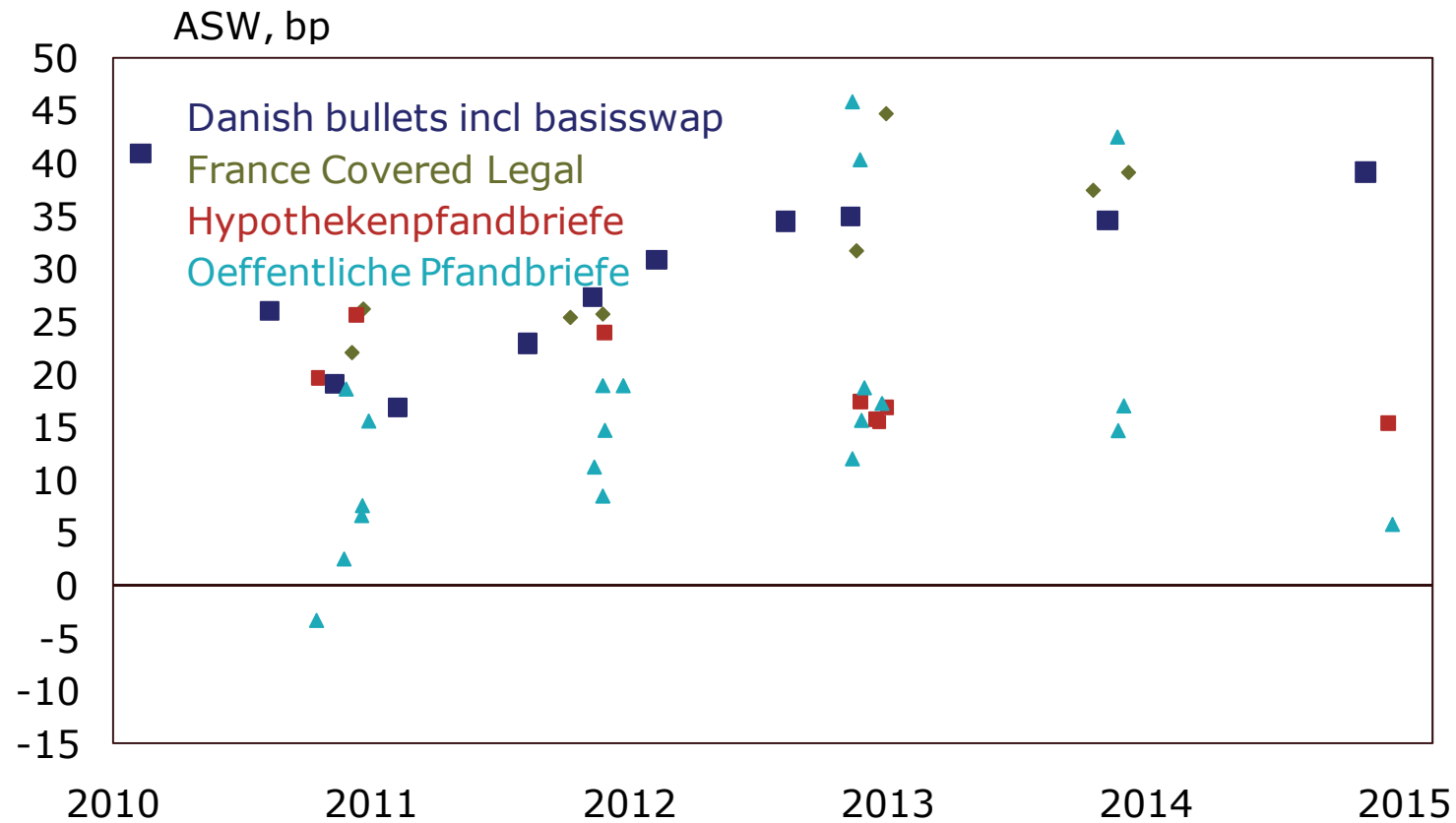
Yield pick-up vs euro market



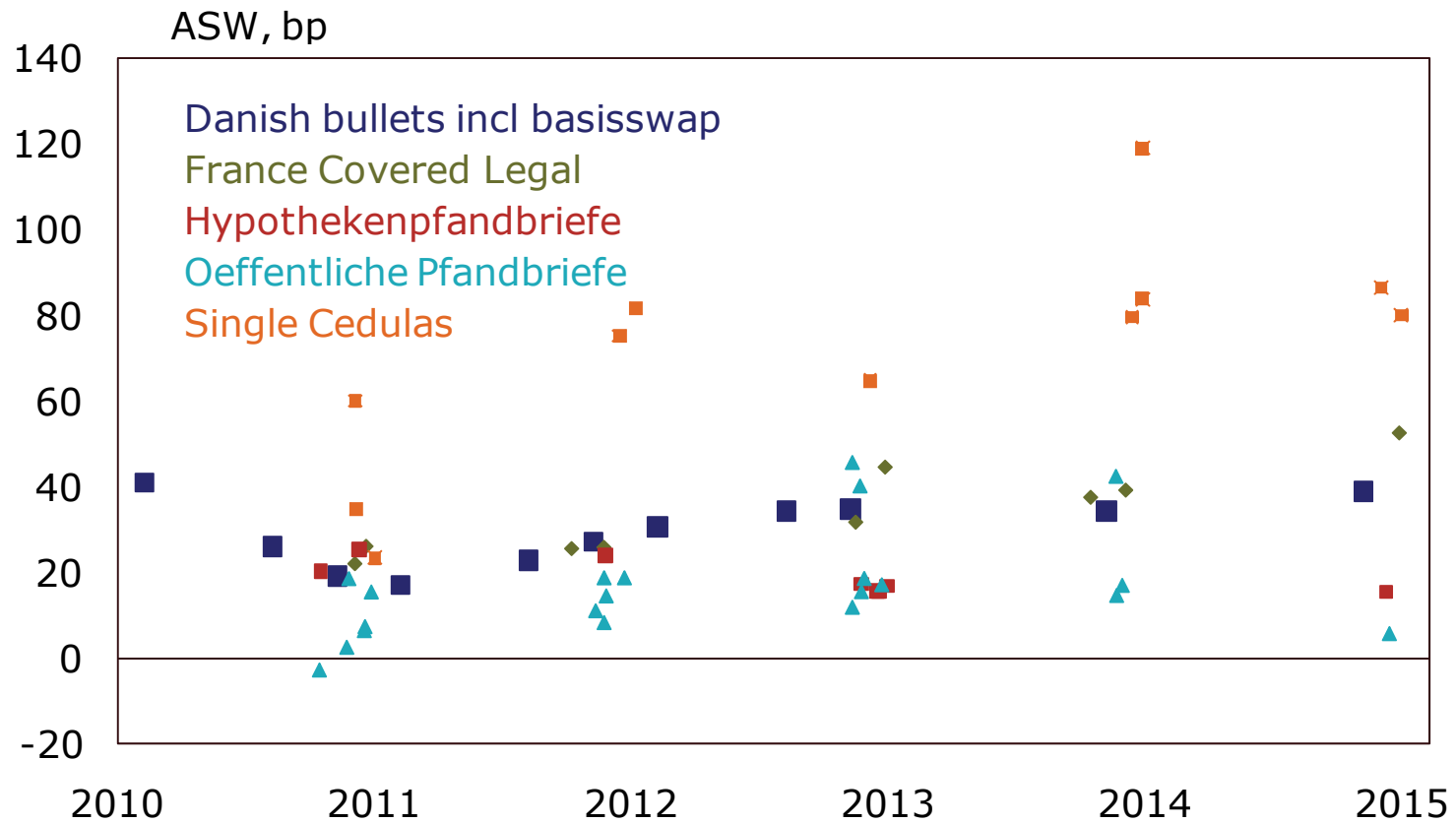
Asset swap spreads on Danish bullets



Euro covered vs Danish bullets

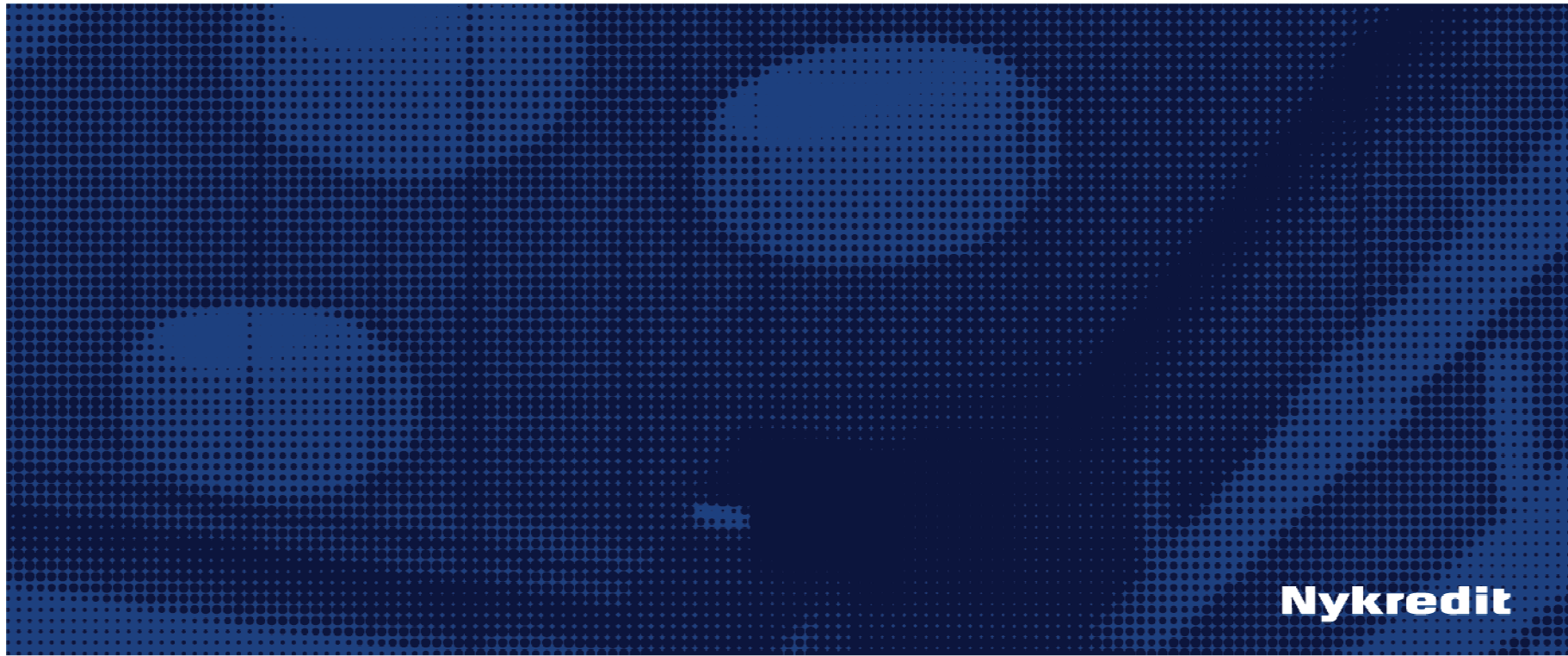


Covered bonds vs Danish bullets - II



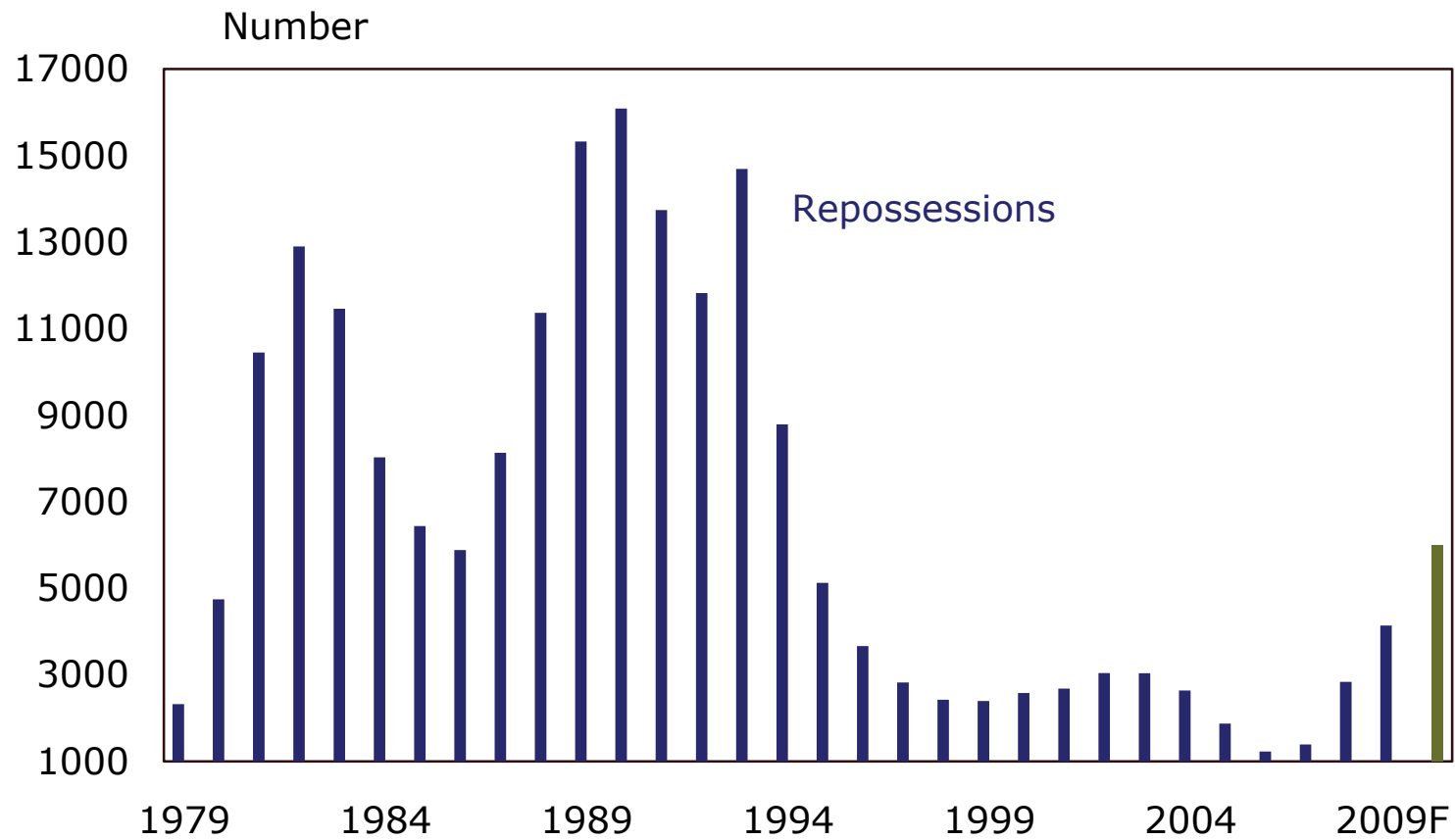
Going forward: March auction is coming up

- The Danish mortgage sector aims to spread refinancing over the year
- Nykredit is first up with a large auction in March
- EUR 7bn to be issued at auction
- 1Y bonds
 - EUR 1bn SDO
 - DKK 6bn SDO

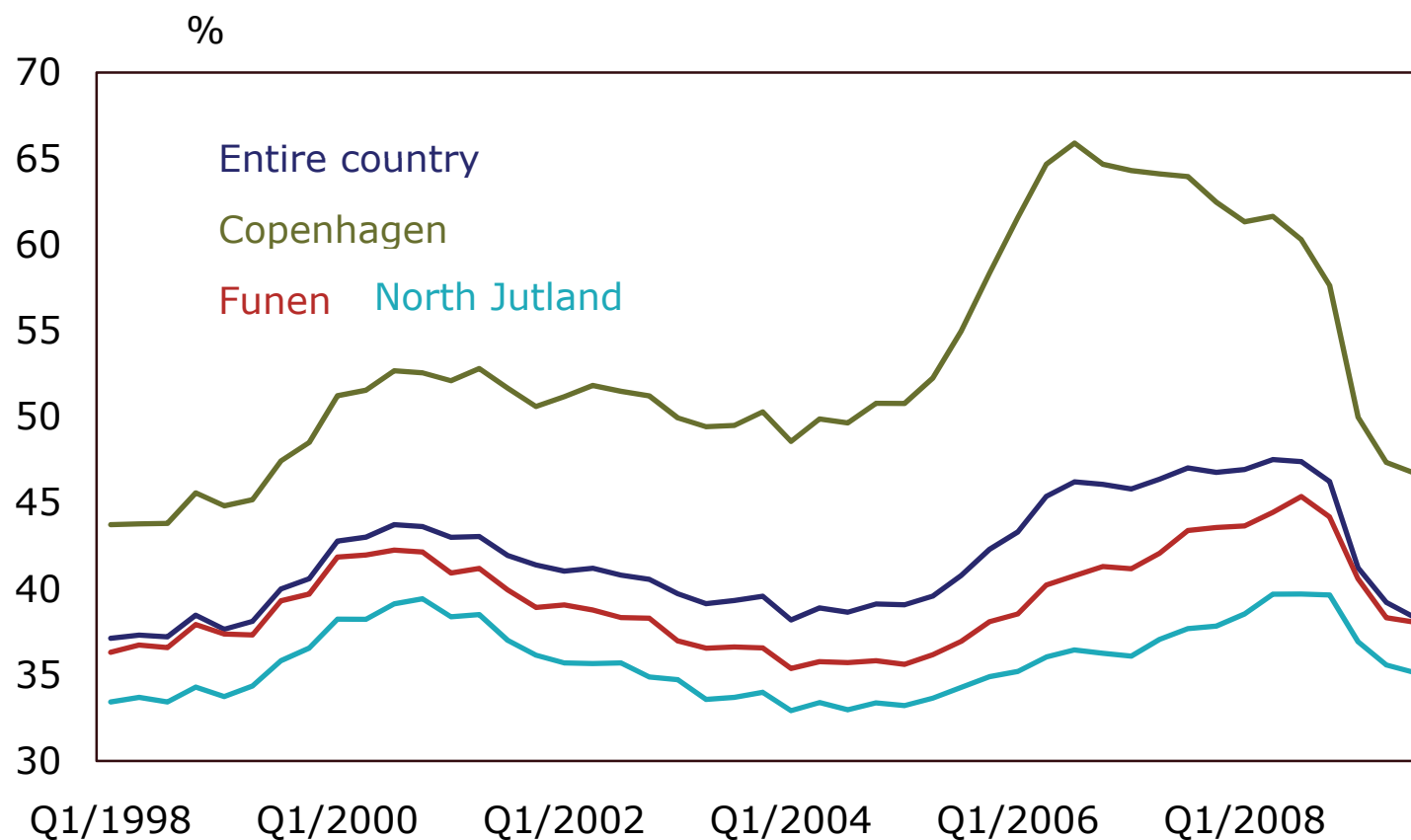


Appendix

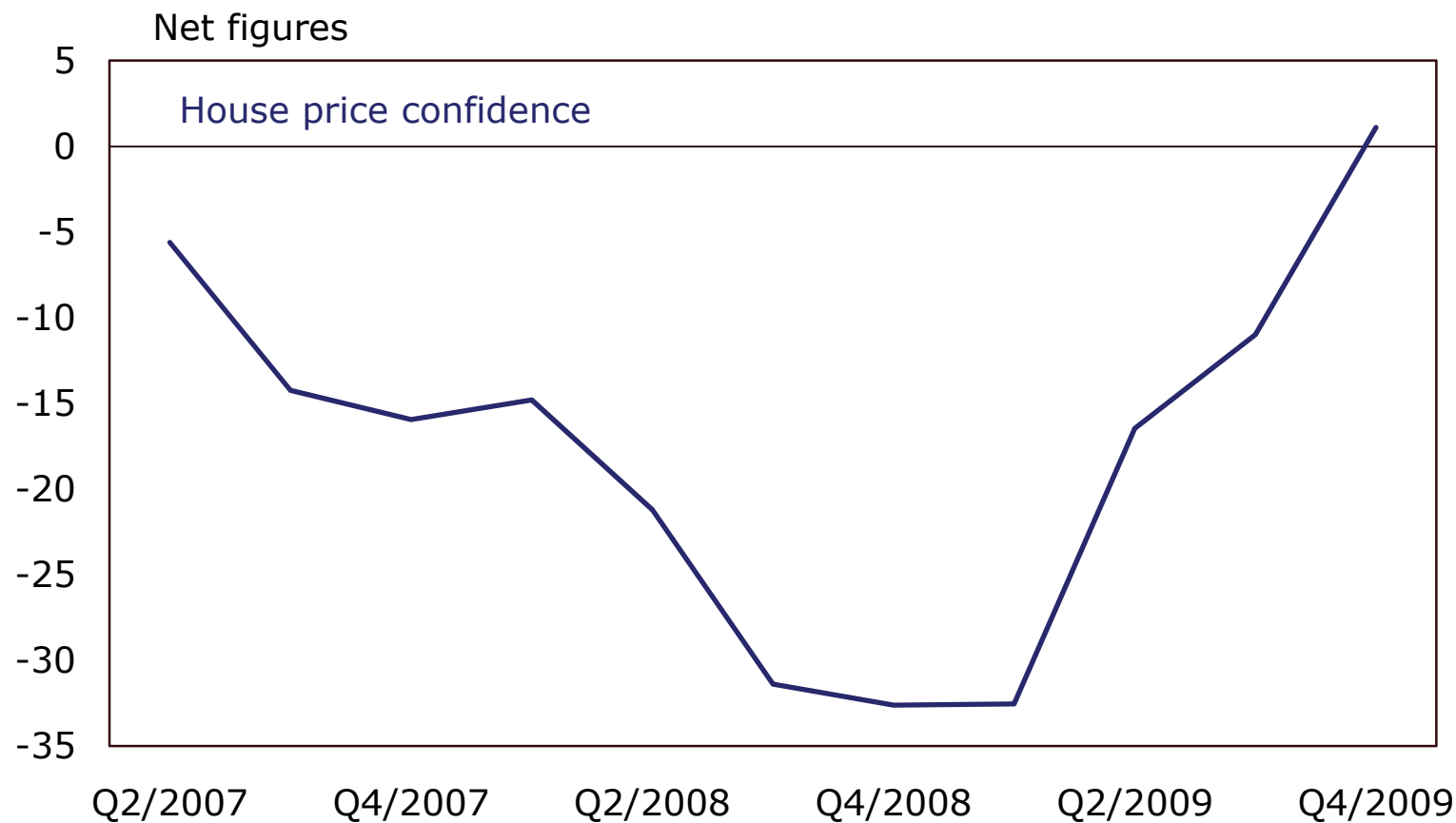
Repossessions



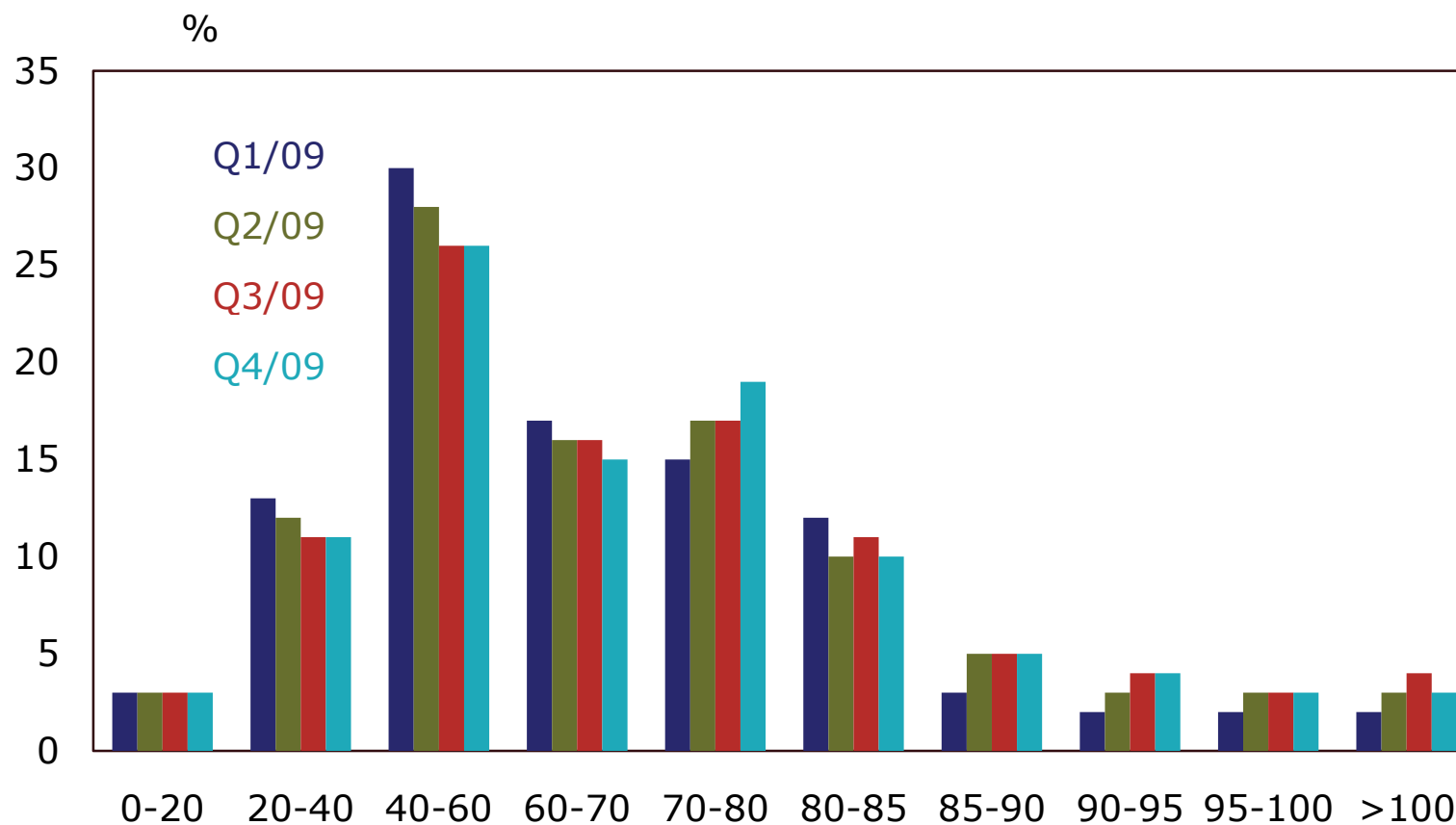
Housing burden eases throughout the country



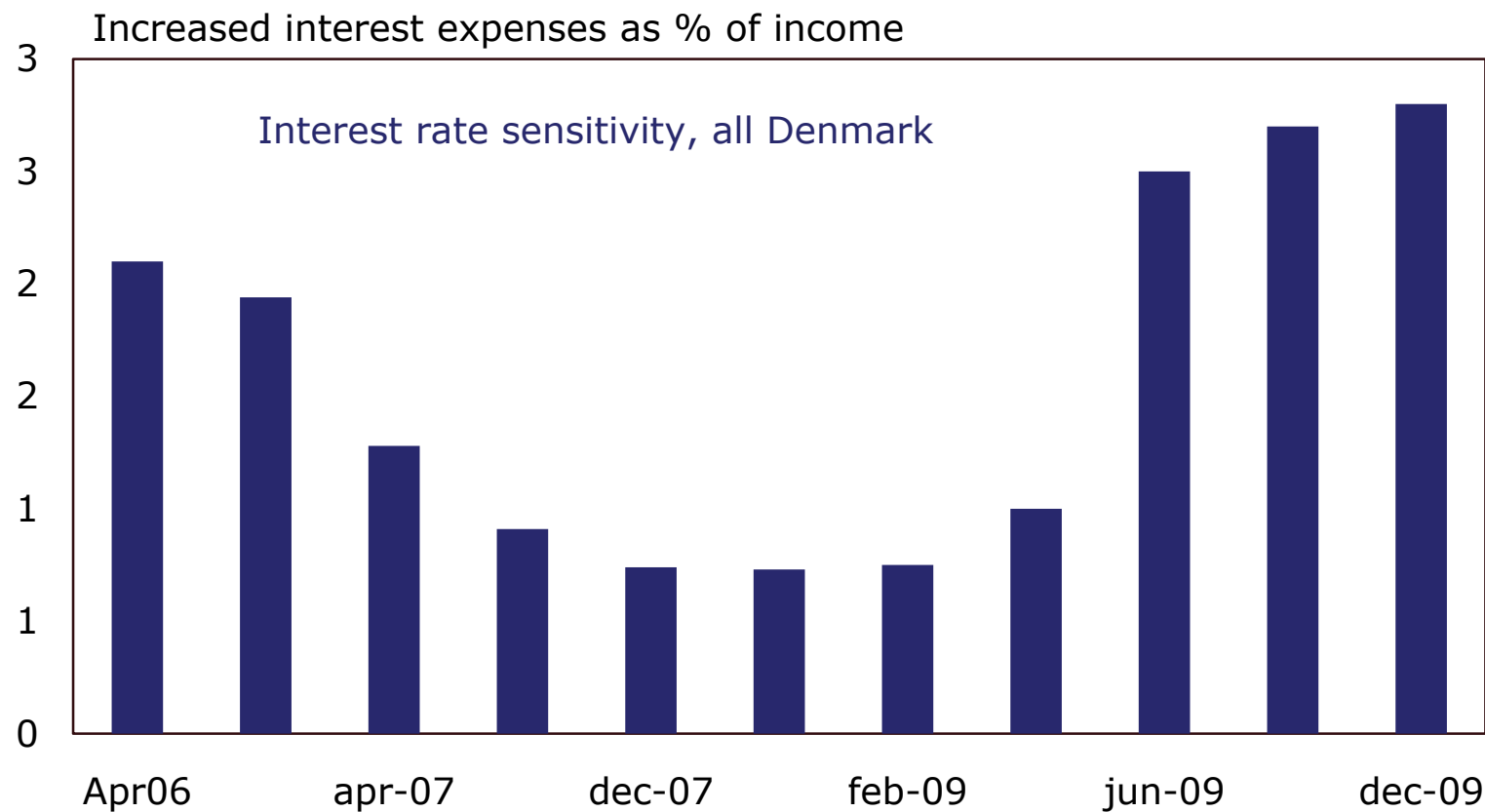
Sharp rise in house price confidence



LTV distribution in the Nykredit Group



Resurging interest rate sensitivity



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Government and mortgage bond recommendation and risk assessment structure

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BUY:

In our view, the bond is fairly inexpensive relative to comparable peers in either the bond or derivatives markets. We expect that the bond will offer a higher return than its peers on a short-term horizon, ie usually three months.

SELL:

In our view, the bond is fairly expensive relative to comparable peers in either the bond or derivatives markets. We expect that the bond will offer a lower return than its peers on a short-term horizon, ie usually three months.

Disclosure

Recommendation on portfolio allocation

Our recommendations are based on a portfolio investor (long-only investor) with benchmarks in Danish government and mortgage bonds.

OVERWEIGHT:

In our view, the return on the bond segment will be higher than the return on the total Danish bond market (Danish government and mortgage bonds) in the next three months.

NEUTRAL:

In our view, the return on the bond segment will be in line with the return on the total Danish bond market (Danish government and mortgage bonds) in the next three months.

UNDERWEIGHT:

In our view, the return on the bond segment will be lower than the return on the total Danish bond market (Danish government and mortgage bonds) in the next three months.

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