

## Ratings Assigned To BRFkredit's Capital Centre B Covered Bond Issuances

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### OVERVIEW

- We have assigned a 'AAA' long-term rating and a 'A-1+' short-term rating to BRFkredit's issuances of "realkreditobligationer" out of its Capital Centre B. The outlook is stable.
- The portfolio backing the bonds consists of first- or second- lien loans secured on mainly residential, but also commercial and multifamily properties in Denmark.
- We have assigned these ratings based on our criteria for rating covered bonds. However, certain aspects of the methodologies and assumptions underlying these criteria are under review. The ratings on all outstanding covered bonds in this program may be affected as a result of this review.

LONDON (Standard & Poor's) Nov. 24, 2011—Standard & Poor's Ratings Services today assigned a 'AAA' long-term credit rating and a 'A-1+' short-term credit rating to BRFkredit A/S's (A-/Stable/A-2) issuances of "realkreditobligationer" (RO; Danish legislation-enabled covered bonds) out of its Capital Centre B. We have assigned a stable outlook to the long-term rating (see list below).

Standard & Poor's ratings address timely payment of interest and ultimate payment of principal on or before legal final maturity of the bonds.

BRFkredit's Capital Centre B is an existing capital center and has separate program documentation. We understand that BRFkredit does not currently plan to issue new RO from Capital Centre B but may do so at a later date. The issuer continues to refinance some adjustable-rate mortgage (ARM) loans in Capital Centre B. We expect that the issuer will eventually transfer eligible ARM loans from Capital Centre B to Capital Centre E (BRFkredit's "særligt dækkede obligationer" [SDO] capital center) as refinancing occurs.

Table 1

## ***Ratings Assigned To BRFkredit's Capital Centre B Covered Bond Issuances***

### Current Bond Maturity Distribution

	(Mil. DKK)	(%)
Fixed-rate (various maturities)	46.5	62
1-year maturity	9.2	12
2-3-year maturity	2.9	4
4-5-year maturity	7.8	10
Above 5 years	8.2	11
Total	74.6	100

If the issuer becomes insolvent, the covered bondholders will have recourse to a separate, ringfenced capital center, and a capital center reserve fund. Furthermore, an assigned administrator ("Kurator") will administer the cover pool, and if necessary, refinance the mortgage loans.

Currently Capital Centre B consists of loans secured by mortgages on residential and commercial properties located in Denmark. There are a large proportion of loans in Copenhagen which is as expected, considering the distribution of the Danish population.

Table 2

#### Geographical Distribution (%)

Denmark	100.0
Copenhagen	49.5
South Denmark	15.9
Zealand	14.9
Central Jutland	14.8
North Jutland	4.8
Other	0.1

Table 3

#### Property Distribution By Type (%)

Single family	44.06
Private rental (commercial)	28.95 [1]
Office	16.53
Subsidized housing	5.76
Tier 1 (hotels, leisure, etc.)	3.24
Industry	1.11
Retail	0.22
Tier 2 (Agriculture)	0.12
Land and unfinished build	0.002

[1] Please note that the issuer has reclassified a number of properties classified from subsidized housing to private rental since the preliminary rating date.

Traditional ROs fail to meet requirements set forth in the Basel II definition for covered bonds, in particular the ongoing revaluation requirement. Consequently, investors that have to comply with Basel II have no longer been able to weight those investments with the preferential risk weightings these instruments typically have. ROs issued prior to Jan. 1, 2008 remain grandfathered for Basel II purposes, while new issuance of ROs have a higher risk weighting.

BRFkredit may continue to issue ROs from Capital Centre B but the now higher risk weighting may make new issuance challenging. We will continue to surveil Capital Centre B's performance.

## ***Ratings Assigned To BRFkredit's Capital Centre B Covered Bond Issuances***

Table 4

Capital Centre B's Key Characteristics (As Of Sept 30, 2011)

Classification of ALMM mismatch	Low
Program categorization	1
Maximum potential rating	AAA
Maximum notch uplift from issuer rating	7
Notches uplift to achieve maximum potential rating ('AAA')	6
Unused uplift(s)	1
Weighted-average target asset spread (bps)	
▪ Of mortgage assets	715
▪ Of substitute assets	350
Current available credit enhancement (%)	9.18
Target credit enhancement commensurate with the highest credit rating (%)	9.14

Note that we calculate the current credit enhancement as (assets – liabilities)/liabilities.

We have reviewed the asset and cash flow information provided as of Sept. 30, 2011 and have classified the program's asset-liability mismatch (ALMM) measure as "low". Furthermore, we have reviewed the program categorization for Capital Centre B and determined this to fall into "category 1". According to step 3 of our covered bond criteria, the combination of both factors potentially allows for a seven-notch uplift above the issuer credit rating (see

" Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds," published on Dec. 16, 2009).

Comparing our assessment of the target credit enhancement of 9.14% with the available credit enhancement of 9.18%, we believe that the cover pool can fully support the potential rating uplift for our 'AAA' rating on these legislation-enabled mortgage covered bonds.

To address potential commingling risk of monies held on third party accounts, BRFkredit has agreed to maintain these accounts with entities that have a Standard & Poor's rating of at least 'BBB+'. BRFkredit will replace or take other mitigating actions within 30 days of a downgrade of these credit entities.

The stable outlook reflects our current view that adverse changes to our counterparty credit rating on BRFkredit, or to our ALMM measure, would not automatically result in a change to the rating on the covered bonds. We also believe that BRFkredit has the ability and willingness to manage the covered bonds at conditions commensurate with the rating that we have assigned.

### **TRANSACTION SUMMARY AND PORTFOLIO CHARACTERISTICS**

Table 5

Key Portfolio Characteristics (As Of Sept. 30, 2011)

Total principal balance (DKK)	81,555,668,466
Bonds outstanding (DKK)	74,698,413,594
Total number of loans	48,641
Largest loan value (DKK)	546,814,618.0
Average loan (DKK)	1,535,709.0

**Ratings Assigned To BRFkredit's Capital Centre B Covered Bond Issuances**

Weighted-average LTV ratio (whole pool 61.50%) [1]	
Subsidized housing (%)	43.47
Commercial[2] (%)	56.38
Private rental (commercial) (%)	67.69
Single family (%)	62.40
Level of arrears (whole pool 0.75%)	
Commercial (% of sub-pool)	1.17
Private rental (commercial) (% of sub-pool)	0.76
Single family (% of sub-pool)	0.74
Subsidized Housing (%of sub-pool)	0.00
Defaulted loans (whole pool 0.53%)	
Weighted-average seasoning (whole pool – 54.5 months)	
Commercial	44.1
Single family	67.7
Proportion of ARMs (%)	38.0
Proportion of IO loans (%)	54.9
Top 20 loans as % of pool	5.6
Reserve fund (%)	9.2
Reserve fund composition (8.4% of whole pool):	
BRF SDOs (%)	59.57
BRF ROs (%)	20.83
Other Danish covered bonds (%)	10.67
'AAA' government bonds (%)	8.93

[1]Based on Standard & Poor's adjusted calculation.

[2]Office, industry, tier 1 and 2

LTV—Loan-to-value.

IOF—Interest-only feature.

ARMs—Adjustable-rate mortgages.

ROs—"Realkreditobligationer".

SDOs—"særligt dækkede obligationer".

Our credit analysis accounts for these characteristics and comprises:

- The determination of the weighted-average foreclosure frequency (WAFF) ratio, which we essentially base on the loan-to-value (LTV) ratio of the underlying borrowers; and
- The determination of the weighted-average loss severity (WALS) ratio, which we derive from the LTV ratio and the expected market value decline of the property.

The product of the WAFF and WALS is the net loss that we assume may affect the portfolio in a 'AAA' scenario. At a 'AAA' rating level, the closing WAFF and WALS results are:

WAFF	21.57%
WALS	33.08%
Assumed net credit loss	
(WAFF x WALS)	7.14%

BRFKredit has stated that it currently does not intend to originate new loans in Capital Centre B. We consider Capital Centre B to be an established capital center and do not expect the issuer to materially change the current credit composition of the capital center.

**POTENTIAL EFFECTS OF PROPOSED CRITERIA CHANGES**

We have assigned the ratings on these covered bonds based on our criteria for rating covered bonds (see “ Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds,” published on Dec. 16, 2009). As part of our cash flow analysis, we used Standard & Poor's Covered Bond Monitor to calculate the target credit enhancement for the covered bonds. However, certain aspects of the assumptions and methodologies used in this cash flow analysis are under review (see “ Advance Notice Of Proposed Criteria Change: Methodologies And Assumptions For Rating Certain Covered Bonds And CDOs,” published on Aug. 5, 2010).

This review may result in further changes to the criteria. As a result, our future assumptions and methodologies used in the credit analysis and our Covered Bond Monitor model may differ from our current criteria. The criteria change may affect the ratings on all outstanding covered bonds in this program. Until such time that we adopt new criteria for rating covered bonds, we will continue to rate and surveil these covered bonds using our existing criteria (see “Related Criteria And Research”).

**APPENDIX**

**BASE ASSUMPTIONS FOR THE CREDIT ANALYSIS OF DANISH MORTGAGE LOANS:  
RESIDENTIAL**

**Table 6**

Base WAFF (%)

AAA 12

WAFF—Weighted-average foreclosure frequency.

**Table 7**

Adjustments To The WAFF

LTV >70%

Base multiplied by 1.1 to 3. (Increases as LTV increases and caps when LTVs reach 100%).

Seasoning

Between 10% and 25% reduction to base, no adjustment applied to loans in arrears.

Buy-to-let loans

Base multiplied by 1.67.

Floating interest rate without cap (ARM loans)

20% of base.

Jumbo loans (> DKK 3,000,000)

1% to 20% of base. (Increases as loan size increases and caps when loan size reaches DKK 4,200,000).

Geographic concentration of > 10% in non-urban areas

20% increase to base WAFF for loans in region affected.

Arrears

Case by case consideration depending on arrears management

and performance data. Up to 75% foreclosure frequency.

Bankruptcy

Case by case consideration. Up to 100% foreclosure frequency.

WAFF—Weighted-average foreclosure frequency.

ARM—Adjustable-rate mortgages.

LTV—Loan-to-value.

Table 8

Base Market Value Decline (%)

AAA 40

Table 9

Adjustment To Valuation

Valuation haircut 10% reduction on valuations made in the period Q1 2005 – Q4 2008.

Applied in calculation of WALs only.

WALS—Weighted-average loss severity.

Table 10

Adjustment To Loss Severity

Jumbo properties (>DKK 3,750,000) Loss severity increases by between 1% to 20%.

(Increases as loan size increases and caps when loan size reaches DKK 5,000,000).

Table 11

Commercial Property Type

Base WAFFs (%) 'AAA'

Subsidized housing 12

Private rental 25

Agriculture 25

Office/retail/industrial 25

Land/incomplete buildings 50

Hotels/care homes/hospitals/exhibition centers 50

Leisure facilities/golf courses/other 55

WAFF—Weighted-average foreclosure frequency.

Table 12

Adjustments To The WAFF

LTV >70%

Base multiplied by 1.1 to 3. (Increases as LTV increases and caps when LTVs reach 100%).

Seasoning

Between 10% and 25% reduction to base, no adjustment applied to loans in arrears.

Floating interest rate without cap (ARM loans)

## ***Ratings Assigned To BRFkredit's Capital Centre B Covered Bond Issuances***

Base times 20%.

Geographic concentration of > 10% in non-urban areas

20% increase to base WAFF for loans in region affected.

Arrears

Case by case consideration depending on arrears management and performance data.

Up to 75% foreclosure frequency.

Bankruptcy

Case by case consideration. Up to 100% foreclosure frequency.

WAFF—Weighted-average foreclosure frequency.

ARM—Adjustable-rate mortgages.

Table 13

Commercial Property Type

Base market value decline (%) 'AAA'

Subsidized housing	60
Private rental	55
Agriculture	55
Office/retail/industrial	55
Land/incomplete buildings	100
Hotels/care homes/hospitals/exhibition centers	75
Leisure facilities/golf courses/other	75

Table 14

Adjustment To Valuation

Valuation haircut 10% reduction on valuations made  
in the period Q1 2005 – Q4 2008.

Applied in the calculation of  
WALS only.

WALS—Weighted-average loss severity.

RELATED CRITERIA AND RESEARCH

- Global Structured Finance Scenario And Sensitivity Analysis: The Effects Of The Top Five Macroeconomic Factors, Nov. 4, 2011
- Principles Of Credit Ratings, Feb. 16, 2011
- Advance Notice Of Proposed Criteria Change: Methodologies And Assumptions For Rating Certain Covered Bonds And CDOs, Aug. 5, 2010
- Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds, Dec. 16, 2009
- Understanding Standard & Poor's Rating Definitions, June 3, 2009
- Update And Clarification To Counterparty Criteria For Interest Rate Swap Counterparties In 'AAA' Rated Transactions, April 1, 2009
- European Legal Criteria For Structured Finance Transactions, Aug. 28, 2008
- Revised Framework For Applying Counterparty And Supporting Party Criteria, May 8, 2007
- Expanding European Covered Bond Universe Puts Spotlight on Key Analytics, July 16, 2004
- Cash Flow Criteria For European RMBS Transactions, Nov. 20, 2003

## ***Ratings Assigned To BRFKredit's Capital Centre B Covered Bond Issuances***

- Revised Criteria for Rating Danish Covered Bonds (Realkreditobligationer), July 10, 2003

Related articles are available on RatingsDirect. Criteria, presales, servicer evaluations, and ratings information can also be found on Standard & Poor's Web site at [www.standardandpoors.com](http://www.standardandpoors.com).

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### RATINGS LIST

Program/ Rating

Country: Covered bond type

### RATINGS AND OUTLOOK ASSIGNED

BRFKredit A/S - Capital Centre B

Long-term: AAA/Stable

Short-term: A-1+

Denmark: "Realkreditobligationer" (Legislation-Enabled Covered Bonds)

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