

To NASDAQ OMX Copenhagen and the Press

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## **Moody's review of bonds issued by BRFkredit ends. Rating Aa1 on Covered Bonds (SDOs) maintained**

As previously informed, Moody's Investors Service has placed the rating of BRFkredit's bond issues in Capital Centre E, Capital Centre B and the General Capital Centre on review for a possible downgrade. This review was a consequence of the fact that at that time BRFkredit's issuer rating was reduced from A2 to Baa1.

The review process has now been completed, and as a conclusion Moody's has stipulated new and higher requirements in terms of over-collateralisation for the bonds issued by BRFkredit. Over-collateralisation is assets that provide additional protection for issued mortgage bonds and covered bonds.

To maintain existing ratings in all capital centres would necessitate the raising of loan capital to an extent that, in an overall assessment, would be inappropriate for BRFkredit. BRFkredit has thus informed Moody's that:

- BRFkredit will secure over-collateralisation in Capital Centre E in excess of the statutory capital requirement (solvency requirement), which means that SDOs (Covered Bonds) issued in BRFkredit's Capital Centre E maintain the rating Aa1.
- BRFkredit will continue to comply with the statutory capital requirements (the solvency requirements) in Capital Centre B and the General Capital Centre, but will not commit to increase the over-collateralisation further.

On this background Moody's has in a separate announcement stated that:

- The rating of SDOs (Covered Bonds) issued from BRFkredit's Capital Centre E is maintained at Aa1
- The rating of mortgage bonds issued from BRFkredit's Capital Centre B is changed from Aa1 to Aa3
- The rating of mortgage bonds issued from BRFkredit's General Capital Centre is changed from Aa1 to Aa3.

In this connection, BRFkredit will raise loan capital amounting to well over DKK 7bn which will be comprised by an individual government guarantee.

Since the beginning of 2008, BRFkredit has issued SDOs (Covered Bonds) from Capital Centre E to fund mortgage lending. BRFkredit's Capital Centre B and the General Capital Centre are no longer used to fund new mortgage lending.

In this connection, CEO Sven A. Blomberg says:

- BRFkredit has focused on maintaining the rating of BRFkredit's SDOs at Aa1 and thus secure the foundation for a continued funding of BRFkredit's lending at competitive rates. BRFkredit both meets Moody's significantly higher requirement for over-collateralisation of the SDOs and the requirement to commit to maintain over-collateralisation going forward.

- BRFkredit has focused on finding a sustainable and balanced solution that enables BRFkredit to maintain its ratings. It has been important to maintain a high rating while at the same time taking into account the substantial additional costs that increased borrowing would inflict on BRFkredit. The ratings assigned now reflect a reasonable balance and give us no reason to change the previously announced outlook for 2010.

**Further information:**

- Press release from Moody's Investors Service (attached separately)
- Appendix: Detailed description of the review process
- A meeting will be held for analysts and investors at BRFkredit's head office on Friday 26 March 2010 at 1 pm, Klampenborgvej 205, Kgs. Lyngby. Please register for the meeting with Jacob Winthereik on phone (+45) 45 26 27 24 or by e-mail to [jwi@brf.dk](mailto:jwi@brf.dk)

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Yours sincerely,

BRFkredit a/s

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Please observe that in the event of any inconsistency between the Danish version and the English version of this announcement, the Danish version will prevail.

## Appendix

The following contains a detailed and technical description of the review process and the background for the decisions made by BRFkredit in that connection.

### *Moody's rating method for covered bonds*

In compliance with Moody's methodology for determining bond ratings ("Moody's Rating Approach to Covered Bonds"), the underlying security behind the issued bonds must be increased to maintain the existing rating, when the issuer rating is downgraded. As security behind the issued bonds, Moody's includes the mortgage credit loans in the relevant Capital Centre from which the bonds have been issued and also the extra assets (over-collateralisation) in the relevant Capital Centre, typically in the form of securities.

When BRFkredit's issuer rating from Moody's was downgraded by two notches on 8 September 2009, Moody's required that the security underlying the bonds issued by BRFkredit should be increased and consequently that the over-collateralisation would have to increase. The purpose of the review process has been to investigate and clarify the following three points:

- Determination of over-collateralisation requirements
- Provision and securing of the over-collateralisation
- Commitment regarding over-collateralisation

### *Determination of over-collateralisation requirements*

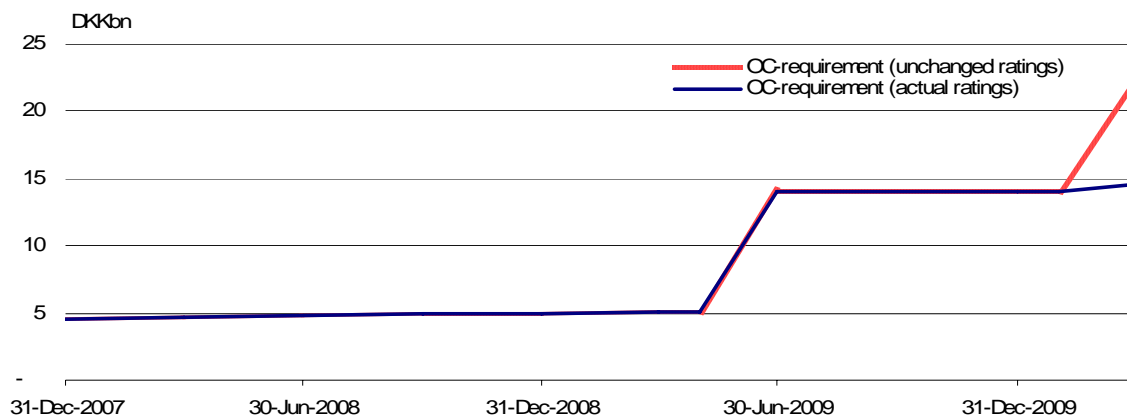
The foundation for Moody's determination of the necessary over-collateralisation is a model-based assessment of the value of the cover pool (the capital centre), i.e. an analysis of the value and quality of the loan portfolio in the capital centre on one hand and the size, nature and maturity of the obligations of the capital centre (the issued bonds) on the other hand. In order to determine the rating obtainable for a given cover pool, a determination is made in terms of the requirement for over-collateralisation (OC requirement) that has to be part of the cover pool. This requirement is determined on the basis of the above analysis and on the basis of the knowledge of the issuer rating and the bond rating that the institution wishes to obtain or wishes to maintain.

As part of the review process, BRFkredit has carefully scrutinised the data foundation for the cover pool and Moody's method to determine the OC requirements. The aim was to determine the size of the OC requirements.

BRFkredit has noted that Moody's considers lending to private rental housing as being in the same category as mortgage lending to other commercial properties. This was the reason why Moody's – based on a generally more negative outlook on the risk of losses on commercial lending – in 2009 raised the OC requirement that BRFkredit would have to meet in order to maintain the existing ratings. Since mid-2009, Moody's OC requirement to BRFkredit has thus been somewhat higher than the solvency requirement. With the downgrading of BRFkredit's issuer rating, the OC requirement rose even further.

As a conclusion to the review process, Moody's has required very high levels of OC to maintain existing ratings on bonds issued by BRFkredit, cf. figure 1 on the next page.

**Figure 1.** Moody's OC requirement to BRFkredit



BRFkredit's management has been focused on finding a sustainable solution in regard to the fulfilment of the OC requirements. However, a number of considerations have been pointing in different directions.

It is significant for BRFkredit to ensure a high degree of protection to bond holders, both through solid capitalisation and through securing a profitable business. Also a high bond rating is an important target for BRFkredit.

The fulfilment of these targets is challenged when maintaining a high rating in future would have to be based on considerable borrowing and consequently significant capital costs that would weigh negatively on BRFkredit's profitability and increase the need for refinancing in the future.

The ratings which have now been determined reflect a reasonable balance between these considerations.

#### *Provision and securing of over-collateralisation*

The uncertainty surrounding the future development in property prices, and hence the uncertainty as to the size of the need to provide additional security under the Covered Bonds legislation, was the reason why BRFkredit was granted a guarantee framework by the Financial Stability Company for the issuance of unsubordinated debt or JCBs (junior covered bonds) with an individual government guarantee. These loan funds can also be used to meet Moody's OC requirements.

It is necessary for the borrowing to be arranged as unsubordinated debt in order for the funds to be used to fulfil Moody's OC requirement and it's necessary that the loan funds are targeted to and tied to the capital centre where they will serve as over-collateralisation. BRFkredit has by contacting the Financial Supervisory Authority had confirmation that the obtained loan funds without doubt to investors constitute over-collateralisation in the capital centre to which they are targeted and tied to.

#### *Commitment regarding over-collateralisation*

It appears from Moody's rating methodology that in their assessment of the security underlying the issued bonds, Moody's may include over-collateralisation in the event that the issuer has committed to maintain a given over-collateralisation ("committed over-collateral"), has a statutory obligation to maintain a certain over-collateralisation level or in the event that the issuer rating is not less than Prime-1 or A3.

Since BRFkredit's issuer rating is Baa1, it is necessary for BRFkredit to commit to securing over-collateralisation of the issued bonds if the OC requirement for the rating is higher than the statutory capital requirement. BRFkredit makes a declaration to this effect for Capital Centre E, as BRFkredit with an addendum adds a declaration to the prospectus for BRFkredit's Covered Bond issues from which it appears that under certain conditions over-collateral, initially 13½ pc. is secured in Capital Centre E to the effect that Covered Bonds issued from BRFkredit's Capital Centre E can maintain the rating Aa1.

BRFkredit has since the beginning of 2008 issued SDOs (Covered Bonds) from Capital Centre E to fund mortgage lending.

No similar commitment is declared with regards to BRFkredit's Capital Centre B and the General Capital Centre. Legislation prevents the provision of a commitment to secure over-collateralisation in the General Capital Centre which is higher than the statutory solvency requirement. A commitment to secure further over-collateralisation in Capital Centre B would necessitate raising loan capital directly in Capital Centre B, and the loan funds would be tied to Capital Centre B - whether or not they in the future are necessary. This would be inappropriate, since Capital Centre B is being phased out concurrently with the customers refinancing their mortgage loans whereby their loans are transferred from Capital Centre B to Capital Centre E.

For both Capital Centre B and the General Capital Centre the over-collateralisation will continue to match the statutory capital requirements (the solvency requirements). BRFkredit's Capital Centre B and the General Capital Centre are no longer used to fund new mortgage lending.