

Briefing on the conclusion of the review of BRFkredit's bonds

Friday, 26 March 2010

BRFkredit

Facts

- Rating on SDOs (covered bonds) from Capital Centre E unchanged Aa1
 - The balance of mortgage loans in Capital Centre E is DKK 94bn
 - By and large, all new issuance occurs from this capital centre
 - Since the beginning of 2008, used for new lending and refinancing
- Rating on ROs (mortgage bonds) from Capital Centre B reduced from Aa1 to Aa3
 - The balance of mortgage loans in Capital Centre B is DKK 102bn
 - There is a limited issuance from this capital centre
 - Issuance occurs in new RO (20%-weight)
 - Primarily short bullets (ARMs), mainly for refinancing (interest-rate resetting)
- Rating on ROs (mortgage bonds) from the General Capital Centre (in Danish: "Instituttet i Øvrigt") reduced from Aa2 to Aa3
 - The balance of mortgage loans in "Instituttet i Øvrigt" is DKK 10bn
 - There is no new bond issuance from this capital centre

Background

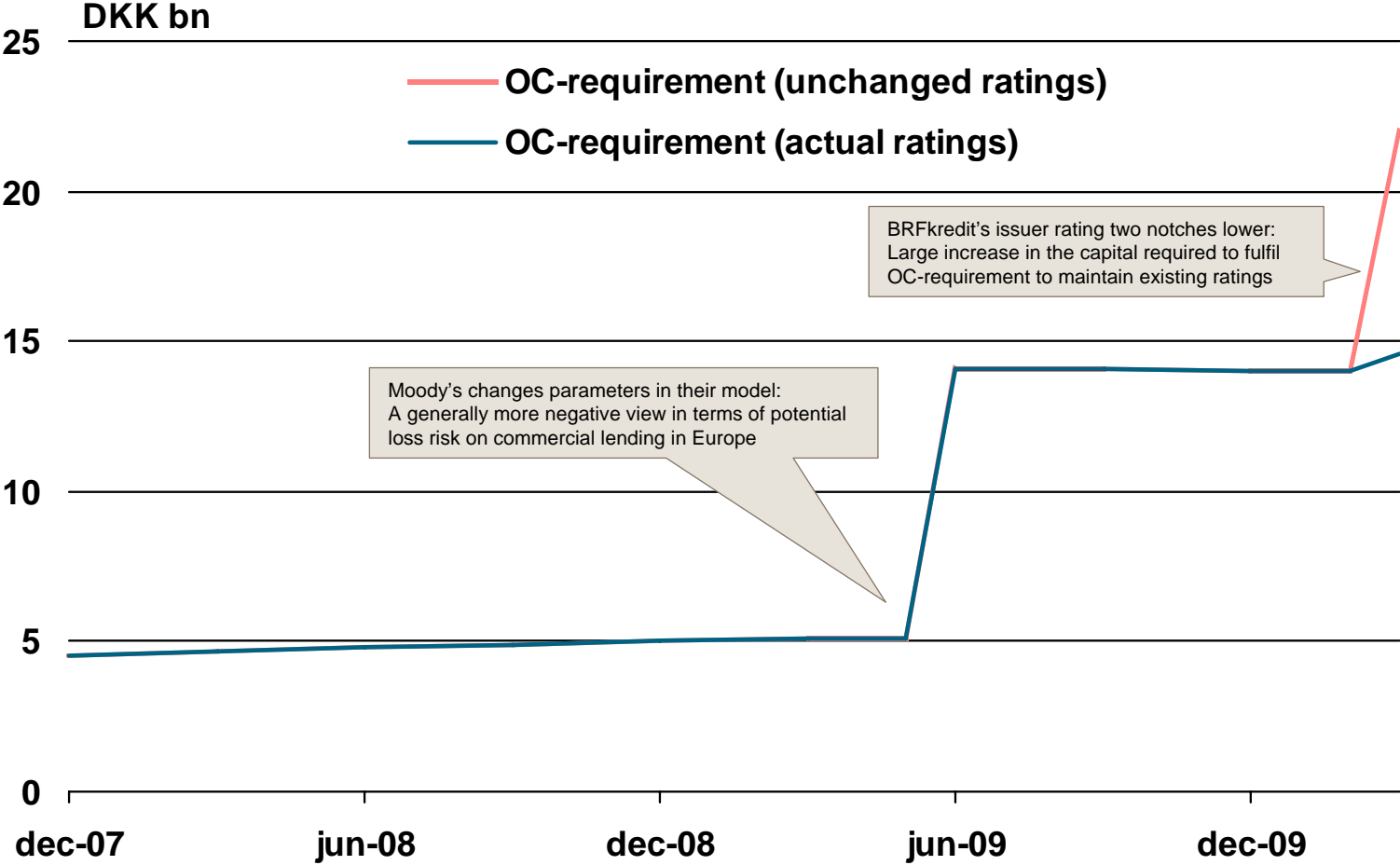
- **Issuer rating changed from A2 to Baa1 on 8 September, 2009**
 - Consequently, the rating of bonds came under review
 - Due to the correlation between the rating of bonds and issuer rating

- **Purpose of the review**
 - Determine how much the security behind issued bonds must increase to maintain existing bond ratings
 - Lower issuer rating -> Higher requirement (extra assets)
 - Requirement in terms of over-collateralisation = “OC requirement”

 - Over-collateralisation – in excess of statutory capital requirements – must be committed to be included in Moody’s analysis
 - When an issuer rating is A3 or above a “commitment” is not required
 - When an issuer rating is below A3 Moody’s requires that the issuer commits to provide over-collateralisation
 - Without commitment, Moody’s only includes over-collateralisation corresponding to solvency requirements

- **Conclusion of the review**
 - How much over-collateralisation is the issuer prepared to commit?
 - How much rating does the issuer “get” for that over-collateralisation?

Moody's OC-requirement to BRFkredit not stable



Challenges as BRFkredit sees them

- Very considerable increase in OC-requirement from Moody's
 - Within one year, capital requirement to maintain ratings has quadrupled
 - OC-requirement is not stable
- OC-requirement must be met and maintained on a committed basis
 - Over-collateralisation must remain in the capital centre
- OC-requirement to maintain current ratings can only be met by borrowing capital
 - Borrowed capital is expensive
 - Borrowed capital must be refinanced
 - Borrowed capital must remain in the capital centre to be allocated to the capital centre

Key Elements Prioritised by BRFkredit

- The investors must be confident that the solution is stable
- BRFkredit must be able to maintain ratings in future
 - Even if Moody's changes the OC-requirements again
 - A shift of the mortgage loans from Capital Centre B to Capital Centre E will continue
- BRFkredit shall run a profitable and stable company
 - Capital costs can become very considerable
- BRFkredit must be able to refinance debts which have been incurred

Which Choices Have Been Made and Why (1/2)?

A durable solution

Must create stability. Limited raising of capital. Commit to high rating

Remove uncertainty

- A declaration has been made regarding commitment to secure over-collateralisation in Capital Centre E
 - BRFkredit raising approximately DKK 7bn in senior unsecured debt with a government guarantee
 - To be allocated to Capital Centre E
 - DKK 7bn are more than the current need in order to meet Moody's' requirements to Capital Centre E
 - Secures a buffer to absorb a possible increase in OC-requirements, a portfolio shift, and a future expiration of existing JCB
 - Maintaining all ratings is estimated to necessitate raising at least DKK 17bn (including buffers)
 - Capital Centre E is growing whereas B is decreasing
 - Already, additional security must be provided in Capital Centre E because of the SDO legislation
 - Refinancing of loan capital in Capital Centre E can in the future be done with JCBs (junior covered bonds)
(or senior unsecured debt, subordinated debt or hybrid debt)

Which Choices Have Been Made and Why (2/2)?

A durable solution

Must create stability. Limited raising of capital. Commit to high rating

Remove uncertainty

- Maintaining a higher rating than Aa3 in Capital Centre B is not viable
 - Maintaining a higher rating requires a commitment regarding over-collateralisation
 - Raising and allocation of loan funds to Capital Centre B will "lock" the loan capital to Capital Centre B no matter whether there is a need for these funds in Capital Centre B in the future
 - Mortgage loans will shift from Capital Centre B to Capital Centre E
 - Refinancing of loan capital to Capital Centre B not possible as JCBs
- Not legally possible to make "commitment" for the General Capital Centre ("Instituttet i Øvrigt")
 - Rating can only be based on over-collateralisation corresponding to the capital required by legislation

Financial Highlights - 2009: H2 Was Remarkably Better than H1

BRFkredit Group					
DKK million		Total 2009	H2 2009	H1 2009	Total 2008
Interest income	+	11,082	5,284	5,798	10,664
Interest expenses	-	9,352	4,368	4,984	9,135
Net interest income	=	1,730	916	814	1,529
Profit/loss on securities (–signifies a loss)	+	366	70	296	-622
Fees and charges, net	+	114	48	66	58
Other operating income	+	8	2	6	34
Operating income	=	2,218	1,036	1,182	999
Personnel expenses	-	549	274	275	527
Administrative expenses	-	338	159	179	363
Depreciations (–signifies a gain)	-	21	12	9	27
Pre-provision income	=	1,310	591	719	82
Other operating expenses	-	37	20	17	12
Losses and loan loss provisions (–signifies a gain)	-	2,125	683	1,442	647
Other non-operating adjustments	+	-6	0	-6	1
Pre-tax income	=	-858	-112	-746	-576
Tax (–signifies an income)	-	-237	-40	-197	-75
Net income	=	-621	-71	-550	-500

Losses and provisioning - 2009

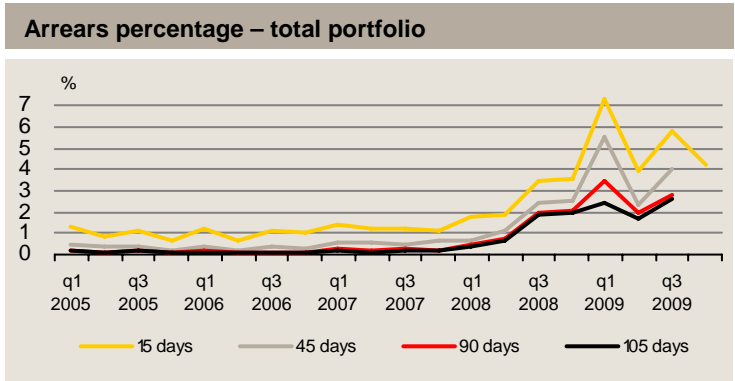
Losses, changes in provisions and provisions as a % of total loans

		Mortgage lending												Bank			Group		
		Private			Commercial			Subsidised			Total			H1	H2	FY	H1	H2	FY
Losses and changes in loan loss provisic	DKK m	398			921			11			1330			796			2125		
Loan loss reserves	DKK m	241			1090			25			1356			977			2333		
LLR as a % of total loans	%	0,24			1,32			0,08			0,62			16,80			1,04		
		H1	H2	FY	H1	H2	FY	H1	H2	FY	H1	H2	FY	H1	H2	FY	H1	H2	FY
Realised losses, net	DKK m	105	156	261	71	177	248	0	1	1	176	334	511	30	31	61	206	365	571
Changes in provisions	DKK m	98	39	137	509	164	673	-5	15	10	602	218	819	634	101	735	1236	319	1555
Sum	DKK m	203	195	398	580	341	921	-5	16	11	778	552	1330	664	132	796	1442	683	2125
Loan balance*, end-2009	DKK bn	102,2			82,5			33,3			218,0			5,8			223,8		

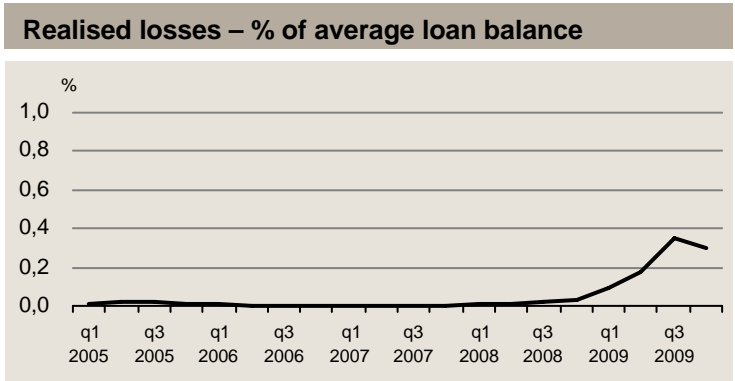
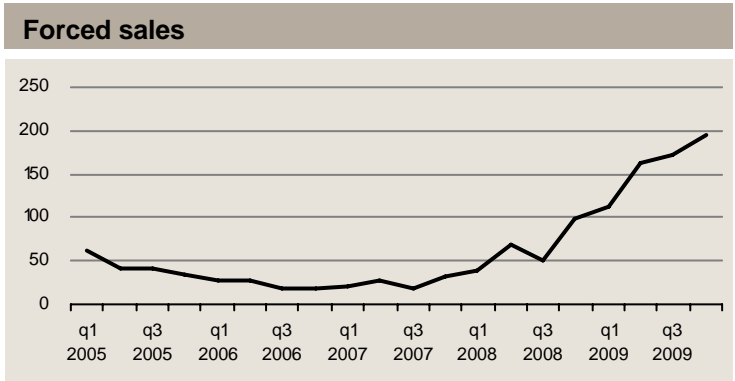
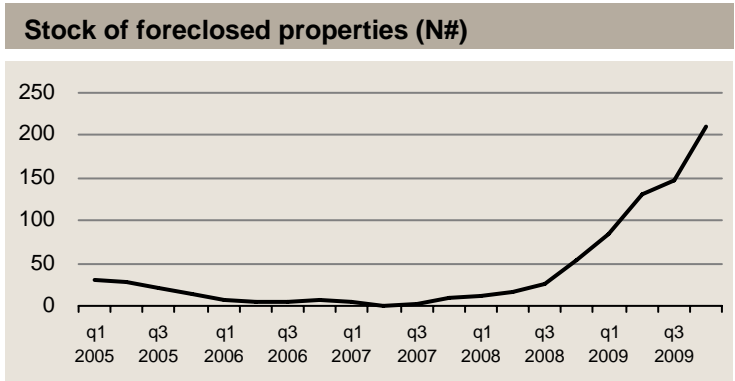
Note: * Loan balance before impairment charges and incl. loans in foreclosed properties

- Considerable provisions have been made in H2-2008 and H1-2009 in terms of loans to the commercial segment within mortgage lending as well as banking
 - Provisions are made when arrears are noted or other difficulties are indicated
 - Losses will materialise at a much later stage
- The need for provisions decreased considerably in H2-2009
- Still increasing losses in the private segment

The Worsening in H2-08 and H1-09 Can Now Be Seen - as Expected – with Increases in Forced Sales, Foreclosed Properties and Realised Losses



Arrears%: Sum of payments in arrears as a % of total payments due on the payment date



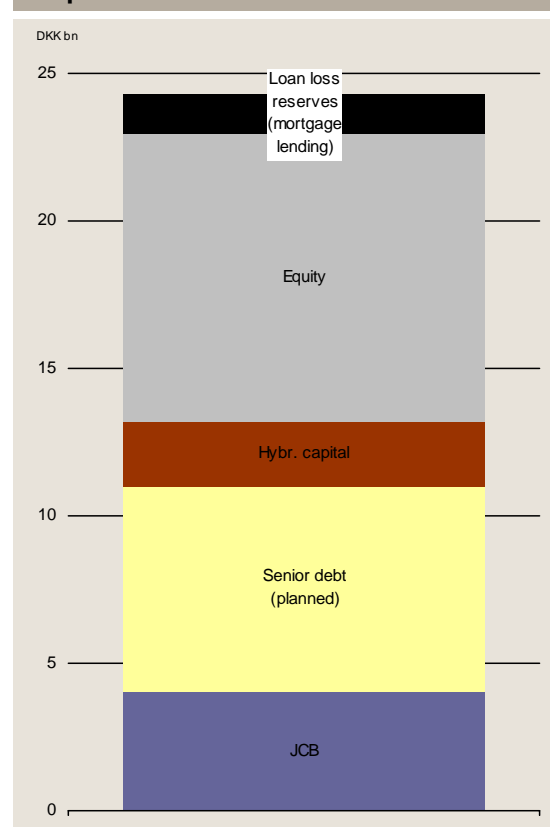
Capitalisation End-2009: BRFkredit is well capitalised

Year end 2009

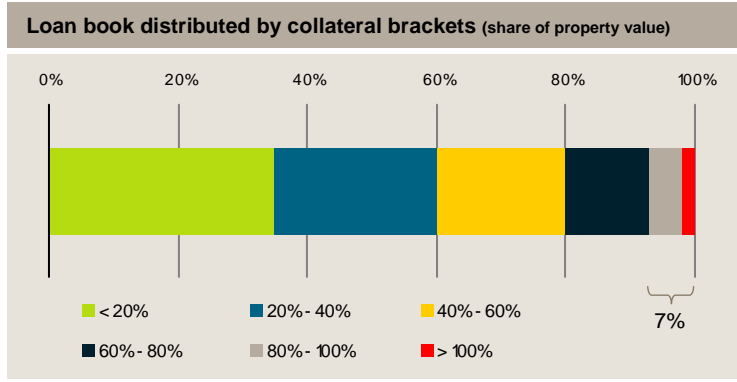
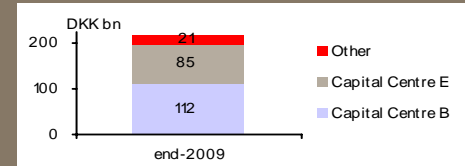
		BRFkredit (group)
Equity	DKK bn	9.7
Hybrid core capital	DKK bn	2.2
JCB	DKK bn	4.0
Capital, in total	DKK bn	15.9
Of this, base capital	DKK bn	11.2
Loan loss reserves	DKK bn	2.3
Solvency requirement	DKK bn	6.9
Minimum solvency required (transition rule)	DKK bn	7.8
Adequate capital (Pillar I & II)	DKK bn	8.2
Solvency ratio	% of RWA	13.0
Core capital ratio	% of RWA	13.3
Minimum solvency required (transition rule)	% of RWA	9.1
Adequate capital (Pillar I & II)	% of RWA	9.5
Equity & hybrid core capital	% of SDO & RO	5.5
Capital, in total	% of SDO & RO	7.3

All figures above are excluding planned raising of senior debt

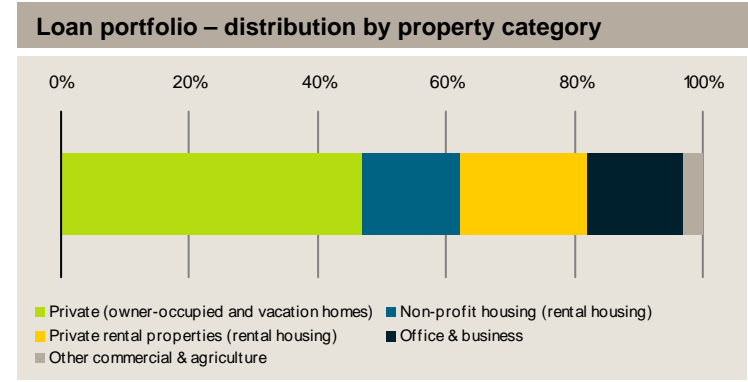
Capital



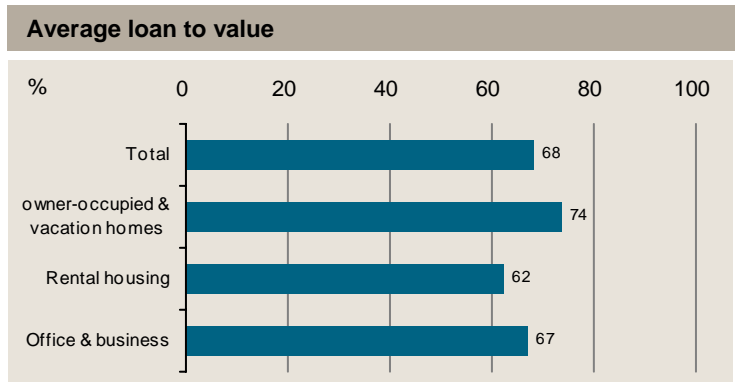
Total Loan Portfolio



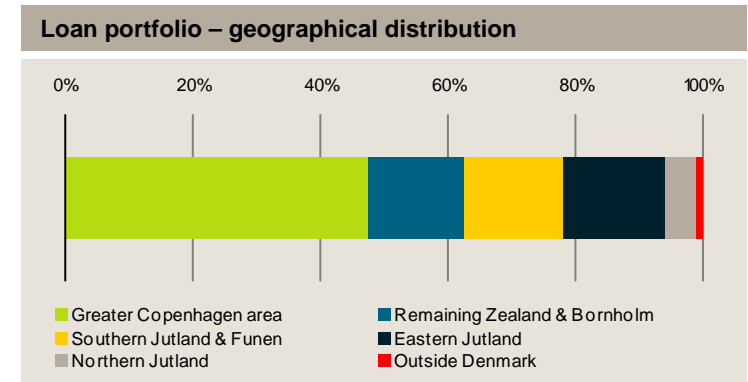
End-2009



End-2009



End-2009

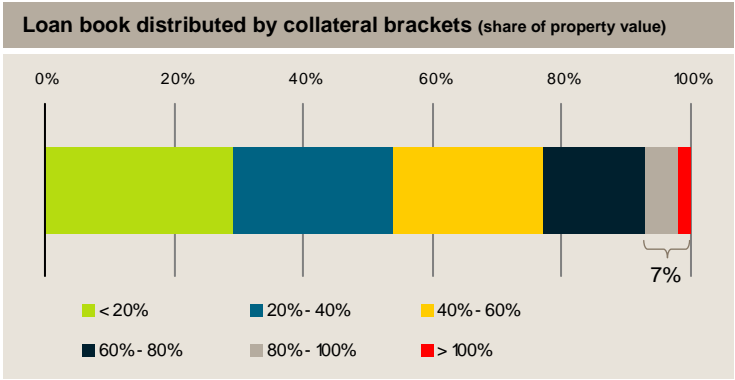


End-2009

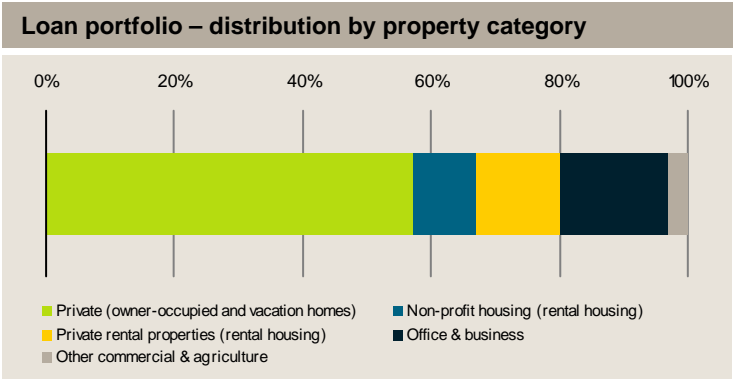
Fair value of property

A fair value is set for each property. For loans secured by owner-occupied properties or vacation homes the starting point is an appraisal made by BRFKredit or the actual traded price if the value is less than five years old. Otherwise the starting point is an estimated value based on a statistical model or the tax authority's assessed valuation. The starting point value is discounted to the reporting date based on a statistical price model. For other properties, the fair value is based on an appraisal made by BRFKredit or the tax authority's assessed valuation. The majority of the fair value estimates are based on appraisals or actual traded prices which were the basis for loan offers or disbursed loans.

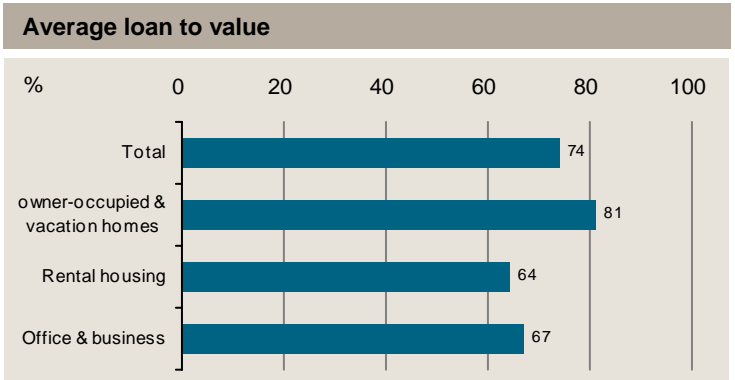
Capital Centre E (SDO)



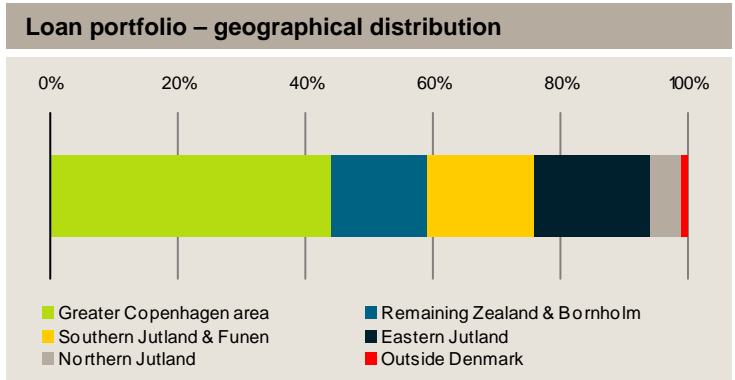
End-2009



End-2009

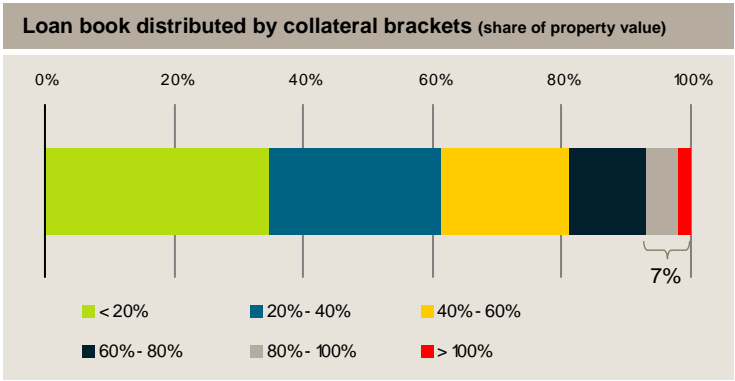


End-2009

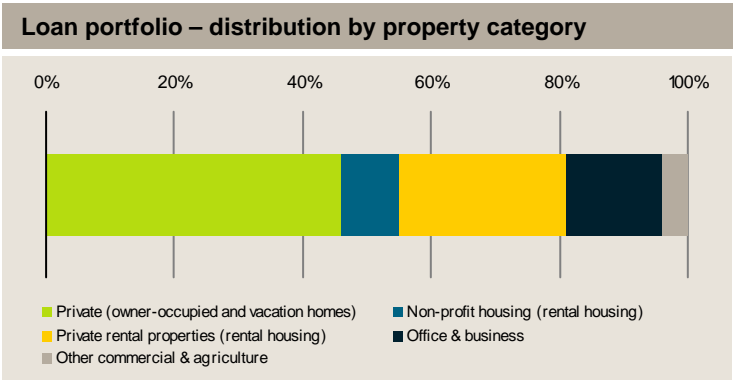


End-2009

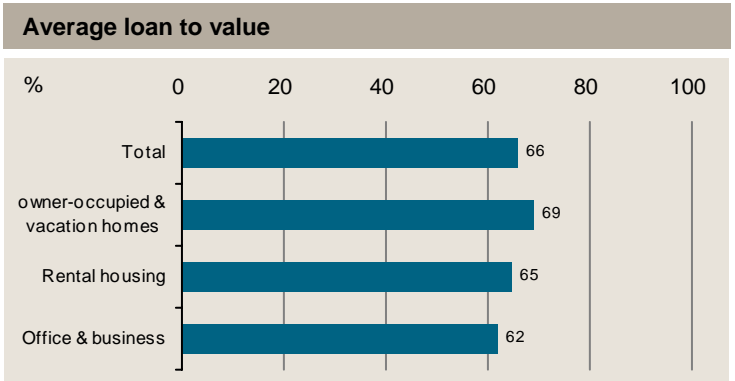
Capital Centre B (RO)



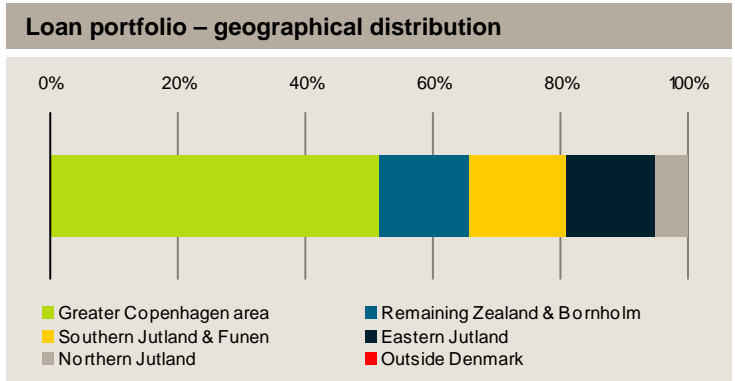
End-2009



End-2009



End-2009



End-2009

Concluding Remarks

- BRFkredit has chosen a sustainable and balanced solution
 - ☺ Secures unchanged ratings in Capital Centre E
 - ☺ Ratings can be maintained in the future
 - ☺ The uncertainty is removed
 - ☹ Necessitates raising of capital, capital costs and liabilities
 - ☹ Lowered rating in Capital Centre B and the General Capital Centre
- BRFkredit does not change expectations for 2010
- BRFkredit is well capitalised

More information

- <http://www.brf.com>
 - BRFkredit's homepage for investors (in Danish and English)
- Annual report 2009
- Risk and capital management 2009
- Cover pool report as of 31 December 2009
- Going forward:
 - Quarterly financial statements
 - Quarterly updates on portfolio key figures:
 - Arrears%, LTVs, etc.

Disclaimer & restrictions

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