

**Solvency need for BRFkredit a/s for Q3 2010 in compliance with the Capital Ratio Executive Order**

To comply with the requirement of quarterly publication of the solvency need of BRFkredit a/s, a separate document regarding the solvency need situation has been prepared as a supplement to the publication of the interim report for Q3 2010.

The calculation of the adequate capital in BRFkredit takes its starting point in the capital requirement of 8 pc calculated by means of the IRB method. In addition, capital is set aside for other types of risk not comprised by the IRB method, just as capital is set aside based on the result of the stress test of the material risks. The stress test scenarios span a period of three years.

*Earnings*

BRFkredit's earnings are the first financial buffer to absorb future losses. The calculation of earnings is based on the current portfolio as well as expectations of the market activity. A relatively large share of BRFkredit's earnings – administration margins on the loans – is relatively stable, whereas other elements are dependent on the activity level and thus less stable. BRFkredit in addition has material earnings from the administration of its equity, but due to the low interest level, lower earnings can be expected. As regards costs and expenses, the anticipated fixed costs as well as interest payable on the hybrid core capital and the JCBs are calculated. Based on earnings and costs and expenses, an amount for "basic earnings" is determined, i.e. earnings without the material risks (provisions, market price adjustments and results of subsidiaries). The basic earnings are calculated each year over the three years and have been calculated at a total of DKK 1.35bn. Next, all material risks will be stressed, and if the stress tests lead to an overall loss, capital will be reserved in Pillar 2.

*Credit risk*

As a starting point, credit risk is stressed on the basis of a mild recession scenario, but due to the current economic development and the prospects of losses that would exceed a mild recession scenario, we have for now chosen to raise the general stress test level. In addition, we make provisions to cover additional credit risk due to an anticipated higher risk on interest-only loans, ARM loans, large commitments and loans under observation for increased credit risk. The stress test is made over a period of three years and not just with a one-year horizon as required by law. On the whole, for the three years capital has been allocated to losses on credit risk amounting to just over DKK 2.0bn in Pillar 2. To this should be added capital provisions in Pillar 1 totalling DKK 4.9bn (without taking the interim rules into consideration).

*Market risk*

BRFkredit's capital is placed in negotiable securities, primarily government and mortgage credit bonds as well as a small portfolio of strategic shares. Stress tests of market risk comprise stress testing of interest rate risk and share price risk, whereas BRFkredit has a highly limited currency risk, which is not believed to require additional provisions of capital. The calculation of the an-

anticipated loss on interest-bearing assets is calculated as a parallel shift of the yield curve by 0.75 pc point for each of the three years; however, for each year the increase in return on the bond portfolio due to the interest rate change will be included. The anticipated loss on the share portfolio is estimated at a fall of 25 pc in year 1, 15 pc in year 2 and 10 pc in year 3 of the current market value. Under the given stress tests, market risk will contribute with a total of DKK - 0.2bn.

#### *Operational risk*

BRFkredit calculates operational risk by means of the standard method. It is estimated that the capital requirement in Pillar 1 is sufficient to cover the operational risk in BRFkredit.

#### *Liquidity risk*

Like in other mortgage credit institutions, there is in BRFkredit a close connection between lending and funding, which means that liquidity risk is highly limited. Any liquidity deficit will be quite short-lived, e.g. in connection with term payments, and will be handled via liquidity budgets and various procedures. It is estimated that the highly limited liquidity risk in BRFkredit does not necessitate the reservation of additional capital.

#### *Refunding risk JCBs/senior debt*

The demand for additional security means that the capital centres must have an influx of additional capital if the LTV value of a given property exceeds the lending limit, e.g. due to falling prices in the housing market. The capital base of the capital centre may contribute, but if it is not sufficient, supplementary capital may be required, and so BRFkredit would be exposed to refunding risk. BRFkredit is constantly monitoring the development in property prices and in LTV values for the properties in the SDO-issuing capital centre, which makes it possible to plan the issuance and refunding of supplementary capital. It is estimated that BRFkredit not currently is faced with refunding risk, and therefore no capital is reserved for this purpose.

#### *Group risk*

BRFkredit is the full owner of BRFbank, whose main activity – like BRFkredit – is to grant loans against a mortgage on real property. As the result of banking has influence on the results for BRFkredit, a reservation of DKK 0.4bn has been made by BRFkredit corresponding to a negative scenario of banking.

#### *Adequate capital base*

BRFkredit's adequate capital base is calculated as the sum of the capital requirement and the additional capital required to cover the increased risk, cf. above. At the end of Q3 2010, BRFkredit's adequate capital base totals DKK 6.7bn, of which DKK 0.8bn is reserved in Pillar 2. BRFkredit's adequate capital base corresponds to a solvency requirement of 8.8 pc.

Adequate capital base for BRFkredit a/s

DKKbn	Q3 2010
Capital requirement – Pillar 1	5.9
- credit risk	4.9
- market risk	0.8
- operational risk	0.2
Capital requirement – Pillar 2	0.8
- core earnings	-1.4
- credit risk	2.0
- market risk	-0.2
- Group risk	0.4
Adequate capital base	6.7

Solvency ratios for BRFkredit a/s

DKKbn	Q3 2010
- capital base less deductions	11.4
- risk-weighted items	76.5
- capital requirement (interim rules included)	7.4
- capital requirement (interim rules excluded)	6.1

At the end of Q3 2010, BRFkredit a/s had a solvency ratio of 14.9 pc. The excess capital adequacy in terms of the statutory capital requirement, cf. S.124 (2) item 1, is calculated at DKK 5.3bn, at DKK 4.7bn in terms of the calculated required capital base, and at DKK 4.0bn in terms of the statutory capital requirement taking interim rules into account.

The calculation of the required capital base for BRFkredit a/s has been subjected to review.