

17 November 2011

**Solvency need for BRFkredit a/s for Q3 2011 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 2011.

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.

*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. 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 have been calculated at a total of DKK 275m. 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*

Credit risk is stressed on the basis of a mild recession scenario. In addition, we make provisions to cover additional credit risk due to an anticipated higher risk on interest-only loans, ARM loans, large commitments, commitments with provisions calculated from a going concern view, and loans under observation for increased credit risk. On the whole, capital has been allocated to losses on credit risk amounting to DKK 1.0bn in Pillar 2. To this should be added capital provisions in Pillar 1 totalling DKK 4.3bn (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 anticipated loss on interest-bearing assets is calculated as a parallel shift of the yield curve by 0.75 pc point; however, 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 of the

current market value. Under the given stress tests, market risk will contribute with a total of DKK 0.1bn.

#### *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 BRFkredit Bank, 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 0.1bn 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 2011, BRFkredit's adequate capital base totals DKK 6.2bn, of which DKK 0.9bn is reserved in Pillar 2. BRFkredit's adequate capital base corresponds to a solvency requirement of 9.0 pc.

Adequate capital base for BRFkredit a/s

DKKbn	Q3 2011
Capital requirement – Pillar 1	5.3
- credit risk	4.3
- market risk	0.8
- operational risk	0.2
Capital requirement – Pillar 2	0.9
- core earnings	-0.3
- credit risk	1.0
- market risk	0.1
- Group risk	0.1
Adequate capital base	6.2

Solvency ratios for BRFkredit a/s

DKKbn	Q3 2011
- capital base less deductions	11.9
- risk-weighted items	68.3
- capital requirement (interim rules included)	6.9
- capital requirement (interim rules excluded)	5.5

At the end of Q3 2011, BRFkredit a/s had a solvency ratio of 17.4 pc. The excess capital adequacy in terms of the statutory capital requirement, cf. S.124 (2) item 1, is calculated at DKK 6.4bn, at DKK 5.7bn in terms of the calculated adequate capital base, and at DKK 4.9bn in terms of the statutory capital requirement taking interim rules into account.