

Global Credit Research - 28 Jul 2011

**Covered bonds of BRFkredit, DLR Kredit and Nykredit Realkredit affected**

London, 28 July 2011 -- Moody's Investors Service has today taken rating actions on a number of covered bonds issued by Nykredit Realkredit A/S (Nykredit), DLR Kredit A/S (DLR) and BRFkredit a/s (BRF), following: (i) the 1 July 2011 downgrade of the ratings of the issuers backing these programmes; and (ii) Moody's review of proposals made by the issuers to further enhance the covered bond programmes.

Moody's has downgraded the following covered bonds of Nykredit:

- Nykredit Capital Centre D: downgraded to Aa1; previously Aaa

In addition, Moody's has affirmed the ratings on the following covered bonds issued by Nykredit and DLR:

- Nykredit Capital Centre E: Aaa
- Nykredit Capital Centre C: Aa1
- Nykredit General Capital Centre: Aa1
- Totalkredit Realkreditfond Capital Centre C: Aaa
- DLR Capital Centre B: Aa1
- DLR General Capital Centre: Aa1
- Nykredit Capital Centre G: confirmed at Aa3; previously Aa3 on review for downgrade

Moody's has also placed on review for downgrade BRF's covered bonds:

- BRF General Capital Centre: Aa3
- BRF Capital Centre B: Aa3
- BRF Capital Centre E: Aa2

**RATINGS RATIONALE**

Today's rating actions follow: (i) Moody's downgrade of the issuer ratings supporting the covered bond programmes; and (ii) Moody's assessment of issuer proposals to further enhance the credit strength of the covered bond programmes. These rating actions follow Moody's press release on 1 July 2011, which announced over-collateralisation (OC) levels consistent with the then-current covered bond ratings.

**--NYKREDIT COVERED BONDS**

Moody's has affirmed the ratings for the covered bonds issued out of all Capital Centres other than Capital Centre D, as the additional enhancements set forth by the issuer mean the Expected Loss (EL) analysis is consistent with the current ratings. In the case of Capital Centre D, the collateral level is consistent with a Aa1 rating, which reflects a one notch downgrade. In carrying out its assessment, Moody's has considered further collateral that it expects will be added to the programmes to bring the EL analysis in line with the current ratings. The new minimum OC levels, which are consistent with the covered bond ratings and are based on the current pool compositions, are as follows:

- Nykredit Realkredit Capital Centre E, rated Aaa: 11.5%
- Nykredit Realkredit A/S Capital Centre D, rated Aa1: 2.5%

- Nykredit Realkredit A/S Capital Centre C, rated Aa1: 0.5%
- Nykredit Realkredit A/S General Capital Centre, rated Aa1: 3.5%
- Nykredit Realkredit A/S Capital Centre G, rated Aa3: 14.0%
- Totalkredit Realkreditfond Capital Centre C, rated Aaa: 3.0%

For all centres listed above, other than Capital Centre E, Moody's expects that Nykredit will in the near future have levels of collateral in place consistent with the current ratings. In the case of Capital Centre E, the collateral level will be increased in stages and Moody's ultimately expects that the level consistent with the current rating will be lower than 11.5%, as refinancing risk will fall when Nykredit starts to move loans that are not refinanced with bonds with matching maturity (ARM loans) to a new Capital Centre.

#### --DLR COVERED BONDS

Moody's has affirmed the ratings for both Capital Centres B and General, as the additional enhancements proposed mean the EL analysis is consistent with the current ratings. The new minimum OC level consistent with the covered bond ratings are as follows:

- DLR Capital Centre B, rated Aa1: 15.0%
- DLR General Capital Centre, rated Aa1: 8.0%

A certain amount of OC relied on by both programmes will be "committed". Moody's considers OC to be "committed" if the issuer's discretion to remove this is sufficiently restricted. For Capital Centre B, DLR intends to provide 10.5% OC in "committed" form, which is consistent with an Aa2 rating. Considering that: (i) the reliance on voluntary OC is limited to a single notch uplift; and (ii) the in-place OC is already 14.8%, Moody's has affirmed the rating at Aa1.

In case of the General Capital Centre, DLR has informed Moody's that the legal minimum collateral requirement (8% of risk-weighted assets) translates into approximately 6.5%-7.0% OC. As DLR adjusts to capital requirement regulations, the legal minimum collateral requirement may in the medium term translate into a lower OC at 4.0%, which alone would be commensurate with a Aa2 rating. Given that: (i) the reliance on voluntary OC is limited to a single notch uplift; and (ii) the in-place OC levels is in excess of 8.0%, Moody's has affirmed the rating at Aa1.

Under Moody's TPI framework and for issuers rated below single A, Moody's considers the level of OC in committed form relative to the level of cover pool losses. Given the level of this ratio in both the DLR programmes, Moody's has lowered the TPI for both programmes to Probable-High from High.

#### --BRF COVERED BONDS

The rating of BRF's covered bonds is placed on review for downgrade to reflect ongoing discussions with BRF on their plans for the programmes. During the review Moody's will consider BRF's proposal to restructure the programmes and these proposals may include a transfer of ARM loans into a new Capital Centre H, as well as the addition of further collateral to existing programmes. In case of the General Capital Centre, BRF is also exploring with the Danish FSA whether it is possible to add collateral in a form Moody's considers "committed".

#### PREVIOUS RATING ACTIONS & PRINCIPAL METHODOLOGIES

Please see ratings tab on the issuer/entity page on Moodys.com for the last rating action and the rating history.

Moody's rating for any covered bond is determined by applying a two-step process:

(1) Moody's determines a rating based on the EL of the bond. Moody's considers that all the covered bonds benefit from two layers of protection by having recourse to both the issuer and the collateral pool. The expected loss is therefore modelled as a function of the issuer's probability of default and the stressed losses on the cover pool assets following issuer default. On an expected loss basis (all else being equal) a downgrade in the issuer's rating leads to an increase in the expected loss of the covered bonds, which issuers may be able to offset by adding further collateral to their programmes. Moody's notes that for Danish issuers rated below A3, it limits the value given to "voluntary" OC in its expected loss analysis.

(2) Moody's assigns a TPI, which range on a six-notch scale from "Very High" to "Very Improbable", and indicates the likelihood that timely payment will be made to covered bondholders following issuer default. The effect of the TPI is to limit the covered bond rating to a certain number of notches above the issuer's rating.

The principal methodology used in this rating was "Moody's Rating Approach to Covered Bonds", published in March 2010. The rating assigned by Moody's addresses the EL posed to investors. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield and to investors.

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