

Preliminary Ratings Assigned To BRFkredit's Capital Centre B Covered Bond Issuances

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OVERVIEW

- We have assigned a preliminary 'AAA/Stable' long-term rating and a
- preliminary 'A-1+' short-term rating to BRFkredit's issuances of
- "realkreditobligationer" out of its Capital Centre B.
- The portfolio backing the bonds consists of first- or second- lien loans
- secured on mainly residential, but also commercial and multifamily
- properties in Denmark.

LONDON (Standard & Poor's) Oct. 17, 2011--Standard & Poor's Ratings Services today assigned a preliminary 'AAA' long-term credit rating and a preliminary 'A-1+' short-term credit rating to BRFkredit A/S's (A-/Stable/A-2) issuances of "realkreditobligationer" (RO; Danish legislation-enabled covered bonds) out of its Capital Centre B. We have assigned a stable outlook to the long-term rating (see list below).

The ratings on the securities are preliminary as of Oct. 17, 2011, and subject to change at any time. We expect to assign initial credit ratings subject to a satisfactory review of outstanding issues. Standard & Poor's ratings address timely payment of interest and ultimate payment of principal on or before legal final maturity of the bonds.

BRFkredit's Capital Centre B is an existing capital center and has separate

program documentation. We understand that BRFkredit does not currently plan to issue new RO from the capital center but may do so at a later date. The issuer will continue to refinance some adjustable-rate mortgage (ARM) loans in Capital Centre B, which due to legal changes, cannot be moved to Capital Centre E (BRFkredit's "særligt dækkede obligationer" [SDO] capital center).

Table 1
Current Maturity Distribution

Bond characteristics	Vol. (Mil. DKK)	%
Fixed-rate	46.5	62
1-year maturity	9.2	12
2-3-year maturity	2.9	4
4-5-year maturity	7.8	10
Above 5 years	8.2	11
Total	74.6	100

We expect that the issuer will eventually transfer eligible ARM loans from Capital Centre B to Capital Centre E as refinancing occurs.

If the issuer becomes insolvent, the covered bondholders will have recourse to a separate, ringfenced capital center, and a capital center reserve fund.

Furthermore, an assigned administrator ("Kurator") will administer the cover pool, and if necessary, refinance the mortgage loans.

Currently Capital Centre B consists of loans secured by mortgages on residential and commercial properties located in Denmark. There are a large proportion of loans in Copenhagen which is as expected, considering the distribution of the Danish population.

Table 2

Geographical Distribution (%)

Denmark	100.0
Copenhagen	46.4
Zealand	15.5
Central Jutland	16.8
South Denmark	16.0
North Jutland	5.2
Other	0.1

Table 3

Property Distribution By Type (%)

Single family	45.07
Subsidized housing	19.03
Office	15.46
Private rental (commercial)	17.49
Industry	1.63
Tier 1 (hotels, leisure, etc.)	0.71
Retail	0.59
Tier 2 (Agriculture)	0.01
Land and unfinished build	0.01

Traditional ROs fail to meet requirements set forth in the Basel II definition for covered bonds, in particular the ongoing revaluation requirement.

Consequently, investors that have to comply with Basel II have no longer been able to weight those investments with the preferential risk weightings these instruments typically have. ROs issued prior to Jan. 1, 2008 remain grandfathered for Basel II purposes, while new issuance of ROs will have a higher risk weighting.

BRFkredit may continue to issue ROs from Capital Centre B but the now higher risk weighting may make new issuance challenging. We will continue to surveil

Capital Centre B's performance.

We have reviewed the asset and cash flow information provided and projected as of September 28, 2011 to determine a "category 1" program categorization for Capital Centre B and a current asset-liability mismatch (ALMM) measure of "low". According to our covered bond criteria, the combination of both factors potentially allows for a seven-notch uplift above the issuer credit rating (see "[Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds](#)," published on Dec. 16, 2009).

Comparing our assessment of the target credit enhancement with the available credit enhancement, we believe that the cover pool can fully support the potential rating uplift for our 'AAA' rating on these legislation-enabled mortgage covered bonds.

The stable outlook reflects our current view that adverse changes to our counterparty credit rating on BRFkredit, or to our ALMM measure, would not automatically result in a change to the covered bond rating. We also believe that BRFkredit has the ability and willingness to manage the covered bonds at conditions commensurate with the preliminary rating that we have assigned.

Table 4
Capital Centre B's Key Characteristics (As Of Sept 28, 2011)

Classification of ALMM mismatch	Low
Program categorization	1
Maximum potential rating	AAA
Current available credit enhancement (%)	9.47
Target credit enhancement commensurate with	

the highest credit rating (%) 9.00

Note that we calculate the current credit enhancement as (assets - liabilities)/liabilities.

TRANSACTION SUMMARY AND PORTFOLIO CHARACTERISTICS

Table 5

Key Portfolio Characteristics (As Of Sept. 28, 2011)

Total principal balance (DKK)	86,609,495,566
Bonds outstanding (DKK)	81,956,180,290
Total number of loans	46,099
Largest loan value (DKK)	425,371,824.0
Average loan (DKK)	1,929,476.0

Weighted-average LTV ratio (whole pool 68.73%) [1]

Subsidized housing (%)	89.35
Commercial[2] (%)	59.17
Private rental (commercial) (%)	74.05
Single family (%)	60.41

Level of arrears (whole pool 0.58%)

Commercial (%)	0.45
Private rental (commercial) (%)	0.04
Single family (%)	0.56

Defaulted loans (whole pool 0.28%)

Weighted-average seasoning (whole pool - 53.9 months)

Commercial	36.5
Single family	68.3

Proportion of ARMs (%)	38.0
Proportion of IO loans (%)	54.9
Top 20 loans as % of pool	6.0
Reserve fund (%)	9.5

Reserve fund composition:

BRF SDOs (%)	64.13
BRF ROs (%)	11.62
Other Danish covered bonds (%)	23.49
'AAA' government bonds (%)	1.93

[1]Based on Standard & Poor's adjusted calculation.

[2]Office, industry, tier 1 and 2

LTV--Loan-to-value.

IOF--Interest-only feature.

ARMs--Adjustable-rate mortgages.

ROs--"Realkreditobligationer".

SDOs--"særligt dækkede obligationer".

Our credit analysis accounts for these characteristics and comprises:

- The determination of the weighted-average foreclosure frequency (WAFF)
- ratio, which we essentially base on the loan-to-value (LTV) ratio of the
- underlying borrowers; and
- The determination of the weighted-average loss severity (WALS) ratio,
- which we derive from the LTV ratio and the expected market value decline
- of the property.

The product of the WAFF and WALS is the net loss that we assume may affect the portfolio in a 'AAA' scenario. At a 'AAA' rating level, the closing WAFF and WALS results expected as of Sept. 28, 2011 are:

WAFF	21.68%
WALS	35.98%

Assumed net credit loss (WAFF x WALS)	7.80%
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BRFkredit has stated that it currently does not intend to originate new loans in Capital Centre B. We consider Capital Centre B to be an established capital

center and do not expect the issuer to materially change the current credit composition of the capital center.

APPENDIX

BASE ASSUMPTIONS FOR THE CREDIT ANALYSIS OF DANISH MORTGAGE LOANS: RESIDENTIAL

Table 6

Base WAFF (%)

AAA	12
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WAFF--Weighted-average foreclosure frequency.

Table 7

Adjustments To The WAFF

LTV >70%

Base multiplied by 1.1 to 3. (Increases as LTV increases and caps when LTVs reach 100%).

Seasoning

Between 10% and 25% reduction to base, no adjustment applied to loans in arrears.

Buy-to-let loans

Base multiplied by 1.67.

Floating interest rate without cap (ARM loans)

20% of base.

Jumbo loans (> DKK 3,000,000)

1% to 20% of base. (Increases as loan size increases and caps when loan size reaches DKK 4,200,000).

Geographic concentration of > 10% in non-urban areas

20% increase to base WAFF for loans in region affected.

Arrears

Case by case consideration depending on arrears management and performance data. Up to 75% foreclosure frequency.

Bankruptcy

Case by case consideration. Up to 100% foreclosure frequency.

WAFF--Weighted-average foreclosure frequency.

ARM--Adjustable-rate mortgages.

LTV--Loan-to-value.

Table 8

Base Market Value Decline (%)

AAA	40
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Table 9

Adjustment To Valuation

Valuation haircut	10% reduction on valuations made within the last calendar year. Applied in calculation of WALs only.
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WALS--Weighted-average loss severity.

Table 10

Adjustment To Loss Severity

Jumbo properties (>DKK 3,750,000)	Loss severity increases by between 1% to 20%. (Increases as loan size increases and caps when loan size reaches DKK 5,000,000).
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Table 11

Commercial Property Type

Base WAFFs (%) AAA

Subsidized housing	12
Private rental	25
Agriculture	25

Office/retail/industrial	25
Land/incomplete buildings	50
Hotels/care homes/hospitals/exhibition centers	50
Leisure facilities/golf courses/other	55

WAFF--Weighted-average foreclosure frequency.

Table 12

Adjustments To The WAFF

LTV >70%

Base multiplied by 1.1 to 3. (Increases as LTV increases and caps when LTVs reach 100%).

Seasoning

Between 10% and 25% reduction to base, no adjustment applied to loans in arrears.

Floating interest rate without cap (ARM loans)

Base times 20%.

Geographic concentration of > 10% in non-urban areas
20% increase to base WAFF for loans in region affected.

Arrears

Case by case consideration depending on arrears management and performance data.
Up to 75% foreclosure frequency.

Bankruptcy

Case by case consideration. Up to 100% foreclosure frequency.

WAFF--Weighted-average foreclosure frequency.

ARM--Adjustable-rate mortgages.

Table 13

Commercial Property Type

Base market value decline (%) AAA

Subsidized housing	60
Private rental	55
Agriculture	55

Office/retail/industrial	55
Land/incomplete buildings	100
Hotels/care homes/hospitals/exhibition centers	75
Leisure facilities/golf courses/other	75

Table 14
Adjustment To Valuation

Valuation haircut 10% reduction on valuations made within the last calendar year. Applied in the calculation of WALs only.

WALS--Weighted-average loss severity.

RELATED CRITERIA AND RESEARCH

- [Principles Of Credit Ratings](#), Feb. 16, 2011
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- [Revised Methodology And Assumptions For Assessing Asset-Liability](#)
- [Mismatch Risk In Covered Bonds](#), Dec. 16, 2009
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- [Understanding Standard & Poor's Rating Definitions](#), June 3, 2009
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- [Update And Clarification To Counterparty Criteria For Interest Rate Swap](#)
- [Counterparties In 'AAA' Rated Transactions](#), April 1, 2009
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- [European Legal Criteria For Structured Finance Transactions](#), Aug. 28, 2008
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- [Revised Framework For Applying Counterparty And Supporting Party Criteria](#), May 8, 2007
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- [Cash Flow Criteria For European RMBS Transactions](#), Nov. 20, 2003
-

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RATINGS LIST

Program/ Rating
Country: Covered bond type

PRELIMINARY RATINGS AND OUTLOOK ASSIGNED

BRFkredit A/S - Capital Centre B
Long-term: AAA/Stable
Short-term: A-1+
Denmark: "Realkreditobligationer" (Legislation-Enabled Covered Bonds)

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