

RATING ACTION COMMENTARY

Fitch Affirms Realkredit Danmark's CC S and CC T Covered Bonds at 'AAA'; Outlooks Stable

Wed 30 Oct, 2024 - 9:25 AM ET

Fitch Ratings - Frankfurt am Main - 30 Oct 2024: Fitch Ratings has affirmed Realkredit Danmark A/S's (A+/Stable/F1) mortgage bonds issued out of Capital Centre (CC) S and CC T at 'AAA' with Stable Outlooks.

The affirmations follow the periodic review of the programmes.

KEY RATING DRIVERS

Four Notches Above IDR: Both programmes' ratings are based on Realkredit's Long-Term Issuer Default Rating (IDR) of 'A+' and the various uplifts above the IDR granted to the programmes. The ratings also consider the over-collateralisation (OC) protection for covered bond holders. The Stable Outlook on both programmes is driven by that on Realkredit's IDR and a six-notch cushion against an IDR downgrade. The covered bond programmes are rated four notches above the bank's IDR. This is out of a maximum achievable uplift of 10 notches, consisting of a resolution uplift of zero notches, a payment continuity uplift (PCU) of eight notches and a recovery uplift of two notches.

Relied Upon OC: For the CC S cover pool, which consists of Danish fixed-rate residential and commercial mortgages, Fitch gives credit to 6.2% OC. This is the lowest nominal OC observed in the past 12 months and provides more protection than the 3.5% 'AAA' break-even OC for the programme. For the CC T cover pool, which consists of Danish floating- and adjustable-rate residential and commercial mortgages, Fitch gives credit to 6.7% OC. This is also the lowest nominal OC observed in the past 12 months and provides more protection than the 4.5% 'AAA' break-even OC for the programme.

No Resolution Uplift: Fitch does not assign a resolution uplift to Realkredit's covered bonds as the issuer is a specialised mortgage lender not operationally integrated into a parent bank and the bail-in tool is not applicable to specialised mortgage banks in Denmark.

Eight-notch PCU: The eight-notch PCU for both programmes reflects the pass-through amortisation structure, driven by the matching principle of assets and liabilities, a requirement for specialised mortgage banks in Denmark. CC S outstanding bonds have an entirely pass-through amortisation profile and more than 99% of the CC T bonds have extendible maturity. The remaining CC T bonds are hard-bullet and their redemptions are covered by liquid assets for at least 12 months. The eight notches also reflect interest payment protection of at least three months for each programme.

Two-notch Recovery Uplift: Both programmes are eligible for a recovery uplift of two notches. The combination of a 'AA+' timely payment rating level and a one-notch recovery uplift results in the lowest break-even OC supporting the 'AAA' ratings.

Break-Even OC: The 'AAA' break-even OC has increased to 3.5% from 3.0% for CC S and to 4.5% from 4.0% for CC T since the last review. The increases are driven by a larger credit loss due to the application of the portfolio loss floor for the residential part of the cover pool under Fitch's criteria. The break-even OC remains driven by the credit risk of each pool, as Fitch does not model a sale of assets in its cash flow analysis, but considers the possibility of bond refinancing post insolvency or models the pass-through or maturity extension of bonds with these features.

Credit Loss Component: The 'AA+' credit loss component of the break-even OC has increased to 3.9% from 3.3% for CC S and to 5.2% from 4.7% for CC T.

Residential Assets For the residential assets, Fitch has derived foreclosure frequency (FF) assumptions based on the analysis of vintage cumulative default data, as per its criteria. The expected FF is unchanged at 1.0% and 1.5% for the residential assets in CC S and CC T, respectively. Fitch applied the 'high' rating multiples to derive the FF in each rating scenario. This is due to the mild economic environment in Denmark and low historical cumulative defaults.

For recovery prospects, we give credit to the automated property valuation model used for regulatory purposes, to which we applied the updated market value decline assumptions for each rating scenario, as detailed under the criteria.

Commercial Assets: Fitch analysed the commercial sub-portfolios under Appendix 11 of its Covered Bonds Rating Criteria, which references Fitch's SME Balance Sheet Securitisation Rating Criteria. To derive stressed losses for these assets the agency uses its Portfolio Credit Model.

Commercial Assets Default Analysis: Fitch applied different probability of default (PD) assumptions for each asset according to the bank's internal rating score, with a one-year

PD floor at 0.5% and expected average annual default rate at 1.0%. For the social and cooperative housing segment, the expected average annual default rate was unchanged at 0.5% (floored at 0.25% for each loan), given its good historical performance.

Commercial Assets Recovery Analysis: We applied cure rates of 50% in a 'B' scenario and a three-year recovery timing assumption for these loans. The 'AAA' collateral haircuts are 75% for industrial properties and 65% for other commercial properties. For the social and cooperative housing segments, we applied the residential market value declines that are set out in our criteria.

Commercial Assets Prepayment Analysis: For the commercial sub-pool analysis, Fitch tested high and low prepayment assumptions in both its portfolio credit and cash-flow models. We applied low and high stressed prepayment rates of 0% and 20%, respectively, (lower than for residential loans based on historical data). The worst-case scenario in our cash flow model was high prepayments for CC S and CC T.

Cash Flow Modelling Results: The resulting assets/liabilities mismatch (ALM) loss component decreased to -0.3% from -0.1% for CC S and to -0.8% from -0.7% for CC T, reflecting the excess spread in the programmes from the administrative margins charged to borrowers.

Low Interest Rate Scenario: In Fitch's cash flow modelling, the interest payments on both the assets and liabilities is floored at zero when the spread plus index component goes negative, which occurs in Fitch's low interest rate scenarios. However, for these programmes the excess spread is not exposed to market rates and Realkredit can charge the investor negative coupons. To reflect this feature, Fitch increased the margin on both the assets and the bonds so that excess spread is maintained in the modelled decreasing interest rate scenarios.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

The covered bonds are rated 'AAA', which is the highest level on Fitch's scale and cannot be upgraded.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

The covered bonds would be vulnerable to a downgrade if Realkredit's Long-Term IDR was downgraded by seven notches to 'BB' or below; or if the level of OC Fitch gives

credit to in its analysis falls below the 'AAA' break-even OC of 3.5% (CC S) and 4.5% (CC T). If the OC of each pool fell to the legal minimum of 8% (of risk-weighted assets), both programmes would be downgraded to 'AA-', one notch above the bank's IDR.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The covered bonds' ratings are driven by the bank's Long-Term IDR.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Realkredit Danmark A/S		
senior secured, Mortgage Covered Bonds, S	LT AAA Rating Outlook Stable Affirmed	AAA Rating Outlook Stable
senior secured, Mortgage Covered Bonds, T	LT AAA Rating Outlook Stable Affirmed	AAA Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Structured Finance and Covered Bonds Counterparty Rating Criteria \(pub. 28 Nov 2023\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum \(pub. 28 Nov 2023\)](#)

[SME Balance Sheet Securitisation Rating Criteria \(pub. 19 Feb 2024\) \(including rating assumption sensitivity\)](#)

[Bank Rating Criteria \(pub. 15 Mar 2024\) \(including rating assumption sensitivity\)](#)

[Structured Finance and Covered Bonds Country Risk Rating Criteria \(pub. 20 Jun 2024\)](#)

[Covered Bonds Rating Criteria - Effective from 6 August 2024 to 30 October 2024 \(pub. 06 Aug 2024\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

[ABS Loss Forecaster Model, v1.2.1 \(1\)](#)

[Covered Bonds Cash Flow Model, v2.1.7 \(1\)](#)

[Portfolio Credit Model, v2.16.2 \(1\)](#)

[ResiGlobal Model: Europe, v1.8.12 \(03 Sep 2024, 21 Jun 2023\)](#)

ADDITIONAL DISCLOSURES

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Realkredit Danmark A/S

EU Issued, UK Endorsed

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