

# **FITCH AFFIRMS REALKREDIT DANMARK'S CAPITAL CENTRES S & T COVERED BONDS AT 'AAA'/'AA+'**

Fitch Ratings-Frankfurt/London-19 November 2018: Fitch Ratings has affirmed Realkredit Danmark A/S's (Realkredit, A/Stable/F1/a) mortgage covered bonds issued out of Capital Centre (CC) S and CC T at 'AAA' and 'AA+', respectively. The Outlook is Stable.

## **KEY RATING DRIVERS**

CC S covered bonds' rating is based on Realkredit's Long-Term Issuer Default Rating (IDR) of 'A', a payment continuity uplift (PCU) of six notches, a two-notch recovery uplift and the 5.9% overcollateralisation (OC) that Fitch takes into account in its analysis, which provides more protection than the revised 4% 'AAA' breakeven OC. This level supports a 'AA+' tested rating on a probability of default (PD) basis and a one-notch recovery uplift to 'AAA'. The Stable Outlook is driven by that on Realkredit's IDR and reflects a three-notch cushion against an IDR downgrade.

CC T covered bonds' rating is based on Realkredit's Long-Term IDR of 'A', a PCU of six notches, a two-notch recovery uplift and the 7.1% OC that Fitch takes into account in its analysis, which provides more protection than the revised 6.5% 'AA+' breakeven OC. This level supports a 'AA' tested rating on a PD basis and a one-notch recovery uplift to 'AA+'. The Stable Outlook is driven by that on Realkredit's IDR, a four-notch cushion against an IDR downgrade and the current rating constraint by the relied-upon OC.

Fitch currently does not assign an IDR uplift to Realkredit's covered bonds, as the issuer is a specialised mortgage lender not operationally integrated into a parent bank and also because the bail-in tool is not applicable to specialised mortgage banks in Denmark.

The six-notch PCU for CC S reflects the liquidity protection in place for at least 12 months. Ninety-nine per cent of the outstanding bonds have a pass-through amortisation profile while the remaining 1% is hard bullet, whose redemptions are covered by liquid assets for at least 12 months. The six notches also reflect interest payment protection for at least three months.

The six-notch PCU for CC T reflects the extendible maturity feature of the bonds issued since 2014 and the liquidity protection for the hard-bullet bonds (8%) as their redemptions are covered by eligible liquid assets on a 12-month rolling basis. The six notches also reflect interest payment protection for at least three months.

CC S's 'AAA' breakeven OC has decreased to 4% from 5% due to higher excess spread in Fitch's worst case scenario, which is now based on a low prepayment stress. Losses assumed on commercial assets are reduced as Fitch gave credit to prepayments in the portfolio credit model. CC T 'AA+' breakeven OC has decreased to 6.5% from 7% mainly due to smaller credit losses on the commercial assets from a lower PD benchmark of 1.5% from 1.75% that was applied to all segments apart from the social and cooperative housing segments. The breakeven OC for both covered bond programmes remains driven by the credit risk of the pools (5.2% on a 'AA+' probability of default (PD) basis for CC S and 6.3% on a 'AA' PD for CC T) as Fitch does not model asset sale in its cash flow analysis, but considers the possibility of bond refinancing post insolvency or models the maturity extension of bonds with this feature.

CC S's and CC T's cover assets contain, respectively, 68% and 54% of residential mortgage loans to private individuals, with the remainder being commercial mortgage loans. The residential mortgage loans in CC S are mostly 30-year fixed rate mortgages for which Fitch applies lower default assumptions than for floating-rate or interest reset mortgages that are predominant in

CC T's programme (see 'Denmark Residential Mortgage Rating Criteria Addendum', dated 21 November 2017). There were no material changes in the residential pools' characteristics and in Fitch's assumptions for these assets.

Fitch has analysed the commercial sub-portfolios using its Criteria for the Analysis of Commercial Real Estate Loans Securing Covered Bonds. These loans are subject to significantly larger loss rates than the residential loans in Fitch's stress scenarios, albeit lower than last year, as Fitch has reviewed the annual default rate assumption for commercial loans, given the good historical performance of this portfolio. In addition, we gave credit to the very good performance of the social and cooperative housing segments which represent, respectively, about 49% and 17% of CC S's and CC T's commercial sub-pools. The expected average annual default rate assumed for the performing social and cooperative housing mortgage sub-portfolio was in line with prior year at 0.5% (floored at 0.25% for each loan). We have taken into account that this segment may gradually reduce over time in CC S. We also applied low and high stressed prepayment rates of 0% and 15%-25% depending on the rating scenario, cure rates of 50% in a 'B' scenario, and a three-year recovery timing assumption for these loans.

On the commercial sub-pool analysis, Fitch has further tested high and low prepayment assumptions in both its portfolio credit and cash-flow models. For CC S, the worst case scenario was low prepayment, resulting in larger credit losses (5.2%), but more excess spread (-1.3% ALM loss component) than under a high prepayment scenario. For CC T, the worst case scenario was a high prepayment assumption, resulting in low excess spread (0.1% ALM loss component) and credit losses of 6.3%.

## RATING SENSITIVITIES

### Realkredit Capital Centre (CC) S Covered Bonds

The rating would be vulnerable to a downgrade if any of the following occurs: (i) Realkredit's Long-Term IDR is downgraded by four notches to 'BBB-' or below; (ii) the PCU is lowered to two notches; or (iii) the relied-upon OC decreases below Fitch's 'AAA' breakeven OC of 4%. Should the relied-upon OC decrease to the legal minimum of 8% of risk-weighted assets, the covered bonds would be downgraded to 'A+'.

### Realkredit Capital Centre (CC) T Covered Bonds

The rating would be vulnerable to a downgrade if any of the following occurs: (i) Realkredit's Long-Term IDR is downgraded by five notches to 'BB+' or below; (ii) the PCU is lowered to one notch; or (iii) the relied-upon OC decreases below Fitch's 'AA+' breakeven OC of 6.5%. The rating of CC T could be upgraded to 'AAA' should the relied-upon OC increase to 8%. Should the relied-upon OC decrease to the legal minimum, the covered bonds would be downgraded to 'A+'.

Fitch's breakeven OC for a given covered bond rating will be affected by, among other factors, the profile of the cover assets relative to outstanding covered bonds, which can change over time even in the absence of new issuance. Therefore, breakeven OC for the covered bond rating cannot be assumed to remain stable over time.

Contact:

Primary Analyst

Vessela Krmnicek, CFA

Director

+44 69 76807 6298

Fitch Deutschland GmbH

Neue Mainzer Strasse 46-50

D-60311 Frankfurt am Main

Secondary Analyst  
Geir Brust  
Associate Director  
+44 20 3530 1638

Committee Chairperson  
Cosme de Montpellier  
Senior Director  
+44 20 3530 1407

Media Relations: Athos Larkou, London, Tel: +44 20 3530 1549, Email:  
athos.larkou@thefitchgroup.com.

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

#### Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018)

<https://www.fitchratings.com/site/re/10044408>

CLOs and Corporate CDOs Rating Criteria (pub. 19 Jul 2018)

<https://www.fitchratings.com/site/re/10038306>

Commercial Real Estate Loans Securing Covered Bonds Rating Criteria (pub. 21 Nov 2017)

<https://www.fitchratings.com/site/re/906003>

Covered Bonds Rating Criteria (pub. 08 Oct 2018)

<https://www.fitchratings.com/site/re/10047240>

Denmark Residential Mortgage Rating Criteria Addendum (pub. 21 Nov 2017)

<https://www.fitchratings.com/site/re/904405>

EMEA RMBS Rating Criteria (pub. 03 Aug 2018)

<https://www.fitchratings.com/site/re/10039007>

Fitch's Interest Rate Stress Assumptions for Structured Finance and Covered Bonds - Excel File  
(pub. 02 Feb 2018)

<https://www.fitchratings.com/site/re/10018863>

Fitch's Foreign-Currency Stress Assumptions for Residual Foreign-Exchange Exposures in  
Covered Bonds and Structured Finance – Excel File (pub. 30 Oct 2017)

<https://www.fitchratings.com/site/re/10008156>

SME Balance Sheet Securitisation Rating Criteria (pub. 23 Feb 2018)

<https://www.fitchratings.com/site/re/10020825>

Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 01 Aug 2018)

<https://www.fitchratings.com/site/re/10039504>

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub.  
01 Aug 2018)

<https://www.fitchratings.com/site/re/10039505>

Structured Finance and Covered Bonds Country Risk Rating Criteria (pub. 23 Oct 2018)

<https://www.fitchratings.com/site/re/10047041>

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 02 Feb 2018)

<https://www.fitchratings.com/site/re/10018549>

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT [WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2018 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing

and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.