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## Ratings Affirmed On Realkredit Danmark's Capital Center S Mortgage Covered Bonds And Section 15 Bonds

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OVERVIEW

- We have reviewed the performance of Realkredit Danmark's Capital Center S Danish mortgage covered bond program.
- We are affirming our 'AAA' ratings on the covered bond program and all series of "Særligt Dækkede Realkreditobligationer" covered bonds issued under it because the available overcollateralization supports the maximum number of notches of uplift from the issuer credit rating (ICR).
- At the same time, we are affirming our 'A' ratings on the Section 15 covered bonds issued under this capital center.
- The stable outlook on our rating on the Capital Center S program reflects our view that adverse movements in the long-term ICR on Danske Bank would not automatically trigger a change to our ratings.
- Our ratings are based on our applicable criteria. However, please note that some of these criteria are under review. As a result of this review, our future criteria applicable to rating covered bonds may differ from our current criteria. These criteria changes may affect the ratings on the outstanding covered bonds.

LONDON (Standard & Poor's) Oct. 30, 2014--Standard & Poor's Ratings Services today affirmed its 'AAA' credit ratings on Danish mortgage credit institution Realkredit Danmark A/S' Capital Center S mortgage covered bond program and all series of "Særligt Dækkede Realkreditobligationer" (SDRO) covered bonds issued

under it. At the same time, we have affirmed our 'A' ratings on the Section 15 covered bonds issued under this capital center. The outlook on the SDRO bonds is stable, and the outlook on the Section 15 bonds is negative, reflecting the outlook on the senior unsecured debt rating on the issuer's parent bank.

Today's affirmations follow our review of the issuer's information as of June 30, 2014.

We classify the program's asset-liability mismatch (ALMM) risk as "low" and we have assigned the program to Category 1 of our ALMM criteria (see "Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds," published on Dec. 16, 2009). Our ALMM criteria therefore allow a maximum uplift of seven notches above our long-term 'A' ICR on Danske Bank A/S (the parent bank). The cover pool primarily comprises Danish mortgages. The available overcollateralization of 10.71% is sufficient to meet the 5.64% target credit enhancement associated with a 'AAA' rating. The program can therefore achieve the highest rating of 'AAA' and benefit from the full potential seven-notch ratings uplift above the ICR.

The stable outlook on the Capital Center S SDRO bonds reflects our view that adverse movements in the long-term ICR on Danske Bank would not automatically result in a change to our ratings on the covered bonds. The program is eligible for a seven-notch uplift above the ICR, but currently only makes use of five notches to attain a 'AAA' rating. Therefore, we could only lower the ratings on the covered bonds if we were to lower the long-term ICR on Danske Bank by more than two notches, or if the target credit enhancement exceeded the available credit enhancement.

Under our imputed promises criteria, Section 15 bonds are classified under paragraph 40 as instruments that lack deferral provisions, or the deferral is expressed as a "temporary shock absorber" (see "Principles For Rating Debt Issues Based On Imputed Promises," published on Oct. 24, 2013). Section 15 bonds contain promises that are both credit-based and measurable, and include promises for both interest and principal payments.

The terms and conditions of the Section 15 bonds are unclear in the event that the issuer becomes insolvent. Our issue ratings on the Section 15 bonds address the timely payment of interest and the ultimate payment of principal. For Section 15 bonds we consider that, if the issuer defaults, interest payments on the bonds would be deferred until the senior covered bondholders can be guaranteed full payment. The notes would rank pari passu with the senior unsecured debt if the cover pool is not sufficient to repay them. We did not give credit to the cover pool in our analysis of the Section 15 bonds. We therefore consider that our ratings on these bonds should not be substantially different to those on the issuer's senior unsecured debt. As a result, we would generally expect our ratings on the Section 15 bonds, including the outlook, to reflect any changes in our ratings on Danske Bank's senior unsecured debt.

POTENTIAL EFFECTS OF PROPOSED CRITERIA CHANGES

Our ratings are based on our applicable criteria, including those set out in "Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds," published on Dec. 16, 2009. However, please note that these criteria are under review (see "Request for Comment: Covered Bonds Criteria," "Request for Comment: Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities," and "Request for Comment: Updated Cash Flow Assumptions For Modeling Certain Covered Bonds," all of which were published on Sept. 4, 2014).

As a result of this review, our future criteria applicable to rating covered bonds may differ from our current criteria. These criteria changes may affect the ratings on the outstanding covered bonds issued by Realkredit Danmark. Until such time that we adopt new criteria, we will continue to rate and surveil these covered bonds using our existing criteria (see the list of related criteria and research below).

#### RELATED CRITERIA AND RESEARCH

##### Related Criteria

- Principles For Rating Debt Issues Based On Imputed Promises, Oct. 24, 2013
- Methodology And Assumptions For Ratings Above The Sovereign--Single Jurisdiction Structured Finance, Sept. 18, 2014
- Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Sept. 13, 2013
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- General Criteria: Group Rating Methodology, May 7, 2013
- Covered Bond Ratings Framework: Methodology And Assumptions, June 26, 2012
- Covered Bonds Counterparty And Supporting Obligations Methodology And Assumptions, May 31, 2012
- Methodology And Assumptions For Analyzing Mortgage Collateral In Danish Covered Bonds, May 2, 2012
- Assessing Asset-Liability Mismatch Risk In Covered Bonds: Revised Methodology And Assumptions For Target Asset Spreads, April 24, 2012
- Methodology: Credit Stability Criteria, May 3, 2010
- Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds, Dec. 16, 2009
- Update To Global Methodologies And Assumptions For Corporate Cash Flow And Synthetic CDOs, Sept. 17, 2009
- Methodology And Assumptions: Update To The Cash Flow Criteria For European RMBS Transactions, Jan. 6, 2009
- Covered Bonds: Surviving Stress Scenarios: Assessing Asset Quality of Public Sector Covered Bond Collateral, Sept. 30, 2003

##### Related Research

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- Request for Comment: Covered Bonds Criteria, Sept. 4, 2014
- Request for Comment: Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities, Sept. 4, 2014
- Request for Comment: Updated Cash Flow Assumptions For Modeling Certain Covered Bonds, Sept. 4, 2014
- European Structured Finance Scenario And Sensitivity Analysis 2014: The Effects Of The Top Five Macroeconomic Factors, July 8, 2014
- Global Structured Finance Scenario And Sensitivity Analysis: Understanding The Effects Of Macroeconomic Factors On Credit Quality, July 2, 2014
- Recent Danish Legislative Changes To Address Refinance Risk Are Unlikely To Affect Our Covered Bond Rating Analysis, April 16, 2014
- Danish Legislative Changes To Address Refinance Risk Are Credit Neutral For Covered Bonds, Nov. 7, 2013
- Banking Industry Country Risk Assessment: Denmark, Oct. 24, 2013
- A Listing Of S&P's New Actions Aimed At Strengthening The Ratings Process, Feb. 7, 2008
- Covered Bond Monitor: Technical Note, Feb. 14, 2006

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