

## Ratings Assigned To Realkredit Danmark's Danish Section 33E Bond Issuances

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### OVERVIEW

- We have assigned an 'A-/Stable' long-term rating and a 'A-2' short-term rating to Realkredit Danmark's existing issuances of "section 33e" bonds (junior covered bonds) out of its Capital Centres S and T.
- We have assigned these ratings based on our principles of credit ratings. The current approach does not envision any additional rating uplift from that of the senior unsecured debt rating on the issuer's parent bank as a result of the characteristics of these bonds.
- Section 33e bonds have a junior ranking claim on the cover pool assets from the capital center under which they are issued. The proceeds from the issuance of section 33e bonds must be placed in particularly secure assets, which are to be placed in separate accounts dedicated to the specific capital center.
- If the issuer defaults, payments on the section 33e bonds from Realkredit Danmark's Capital Centres S and T are deferred until all respective senior covered bonds have redeemed, unless the bankruptcy administrator is confident that the senior covered bonds can be repaid. The bonds are dual-recourse instruments as they are secured by the residual or remaining assets within the individual capital center, and will rank pari passu with the senior unsecured creditors' claims.

LONDON (Standard & Poor's) June 19, 2012--Standard & Poor's Ratings Services today assigned a 'A-' long-term credit rating and a 'A-2' short-term rating to Realkredit Danmark A/S's issuances of Danish section 33e bonds (DKSE33e; Danish legislation-enabled junior ranking mortgage bonds) out of its Capital

Centres S and T. We have assigned a stable outlook to the long-term rating (see list below).

Standard & Poor's ratings address timely payment of interest and ultimate payment of principal on or before legal final maturity of the bonds. We have assigned these ratings based on our principles of credit ratings (see "Principles Of Credit Ratings," published on Feb. 16, 2011).

We understand that Realkredit Danmark has issued section 33e bonds to raise funds for posting additional collateral in its capital centers issuing "saerligt daekkede realkreditobligationer" (SDRO; Danish senior covered bonds). Realkredit Danmark's Capital Centres S and T are existing capital centers which have separate program documentation and are specifically set up to allow the issuer to issue SDRO bonds. The section 33e bonds are also issued under separate documentation for Capital center S and Capital center T, respectively.

The 2007 amendment to the Danish covered bond legislation introduced the requirement to regularly revalue the collateral securing the mortgage loans in order to make certain Danish covered bonds compliant with the Capital Requirements Directive. With the amendment, the regulators introduced section 33e bonds to allow mortgage credit institutions issuing SDROs or "saerligt daekkede realkreditobligationer" (SDRO; Danish mortgage covered bonds) to raise capital in order to maintain sufficient overcollateralization in the event that the loan-to-value ratio of the mortgage assets were to increase above regulatory limits.

The Danish covered bond legislation refers to section 33e loans as bonds that are issued with the purpose of funding additional overcollateralization. Some mortgage banks refer to section 33e loans as "junior covered bonds" while other market participants may refer to them as "issuance of senior debt in pursuance of section 33e of the Act on Mortgage loans and Mortgage Bonds etc".

We note that section 33e bonds rank junior to the traditional (senior) covered bonds in the capital center that they are issued from, but rank senior to the issuer's senior unsecured debt for funds from the associated capital center. We are aware that any surplus of the cover pool after making payments to covered bonds and section 33e bonds will be transferred to the bankruptcy estate. Not until then will the senior unsecured creditors have access to assets from the cover pool.

We consider that if the issuer defaults, principal and interest payments are deferred until the redemption of all the covered bonds outstanding. Residual claims of section 33e bond investors not fulfilled in the capital center rank pari passu with senior unsecured creditors' claims against all other assets not pledged to the mortgage bank's other cover pools. The bonds are dual-recourse instruments as they are secured by the residual or remaining assets within the individual capital center.

We understand that no acceleration occurs on the covered bonds, derivatives,

or section 33e bonds if the mortgage credit institution is declared bankrupt. However, an administrator may pay back section 33e bondholders if the administrator is confident that funds are sufficient to repay all remaining issued covered bonds and derivative counterparties registered in the specific capital centers.

#### RATING RATIONALE

As we do not believe that the issuer can commit to or manage levels of overcollateralization to support section 33e bonds that are similar to what we typically see for standard covered bonds, we do not consider the benefit of any recourse to the cover pool in our rating analysis. This is due to the specific payment mechanics of the Danish section 33e bonds and their purpose to raise funds to provide additional overcollateralization for the senior covered bonds.

We also consider that, upon an issuer default, interest payments on the bonds would be deferred until such time as the senior covered bondholders can be guaranteed payment in full. Hence, in our opinion, section 33e noteholders are unlikely to receive timely payment interest. As our ratings address timely payment of interest and ultimate payment of principal, we believe it is very likely that our ratings on the section 33e bonds issued out of Realkredit Danmark's Capital Centres S and T would be lowered if the issuer defaults.

Based on these considerations, we will generally align our rating on the Danish section 33e covered bond issuances to the senior unsecured debt rating on the issuer (normally a parent entity to the cover pool). Realkredit Danmark is currently not a rated entity and consequently, we will align our ratings on the section 33e bonds to the senior unsecured debt rating on the issuer's parent Danske Bank A/S (A-/Stable/A-2).

Because the notes rank pari passu with the senior unsecured claims on the issuer in case the cover pool is not sufficient to repay the section 33e bonds, and because we give no benefit to the cover pool in our analysis of the section 33e bonds, we consider our rating on the section 33e bonds should not be substantially different to that on Danske Bank's senior unsecured debt. As a result, we would generally expect our ratings on the section 33e bonds to reflect any changes in our ratings on Danske Bank's senior unsecured debt.

Consequently, our 'A-' long-term and 'A-2' short-term ratings on the section 33e bonds are the same as our ratings on the issuer's parent bank's senior unsecured debt. As a result, the outlook assigned to the long-term rating on the section 33e bonds reflects the stable outlook assigned to the issuer credit rating on Danske Bank.

#### OTHER CONSIDERATIONS

Should an issuer choose to not refinance the section 33e bonds, this may lead to a decrease in the overcollateralization available to a capital center. Changes in available overcollateralization may lead to changes in the ratings

on covered bonds issued out of Realkredit Danmark's Capital Centres S and T.

The issuance of Danish section 33e bonds is only one of the methods Danish covered bond issuers are utilizing to meet the legal requirements of additional posting of collateral when house prices decline.

If the issuer becomes insolvent, all assets in the cover pool secure the preferential claim of the outstanding covered bonds.

The Danish covered bond legislation requires that the proceeds from issuance of section 33e bonds are invested and are a defined group of high quality assets. Furthermore, the legislation states that any assets which are funded by the issuance of section 33e bonds must remain in the capital center from where the section 33e bonds were issued. This means that the part of the overcollateralization in a given capital center which the rating on the (senior) covered bonds relies on is in effect, committed to the capital center and the management cannot remove it at their discretion as long as the corresponding section 33e bonds are outstanding.

Our current ratings on SDRO issuances from Capital Centres S and T are 'AAA/Stable/A-1+'. As of March 31, 2012, Capital Centres S and T had available overcollateralization levels of 10.45% and 6.35%, respectively.

As of May 31, 2012, Realkredit Danmark had issued DKK17.2 billion worth of section 33e bonds with DKK4 billion issued from Capital Centre S and DKK13.2 billion issued from Capital Centre T. We expect issuance to continue as long as house prices continue to fall in Denmark.

#### RELATED CRITERIA AND RESEARCH

- Research Update: Danske Bank Downgraded To 'A-/A-2' On Continued Weak Irish Operations; Outlook Stable, May 30, 2012
- Methodology And Assumptions For Analyzing Mortgage Collateral In Danish Covered Bonds, May 2, 2012
- Ratings Assigned To Nykredit Realkredit's Danish Section 33E Bond Issuances, April 18, 2012
- European Structured Finance Scenario And Sensitivity Analysis: The Effects Of The Top Five Macroeconomic Factors, March 14, 2012
- Standard & Poor's Ratings Definitions, May 23, 2012
- Ratings Assigned To Realkredit Danmark's Capital Centre T Covered Bond Issuances, Jan. 18, 2012
- Global Structured Finance Scenario And Sensitivity Analysis: The Effects Of The Top Five Macroeconomic Factors, Nov. 4, 2011
- Principles Of Credit Ratings, Feb. 16, 2011
- Understanding Standard & Poor's Rating Definitions, June 3, 2009
- Evolution, Not Revolution—Proposed Changes To The Issuance Of Danish Covered Bonds, Jan. 25, 2007
- Expanding European Covered Bond Universe Puts Spotlight On Key Analytics, July 16, 2004
- Revised Criteria for Rating Danish Covered Bonds (Realkreditobligationer),

*Ratings Assigned To Realkredit Danmark's Danish Section 33E Bond Issuances*

July 10, 2003

RATINGS LIST

Program/                      Rating  
Country: Covered bond type

RATINGS AND OUTLOOK ASSIGNED

Realkredit Danmark A/S - Capital Centres S and T  
Long-term: A-/Stable  
Short-term: A-2  
Denmark: "Danish Section 33e Bonds" (Legislation-Enabled Junior Ranking  
Mortgage Bonds)

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