

Ratings Assigned To Realkredit Danmark's Capital Centre T Covered Bond Issuances

Primary Credit Analyst:

Niclas Aschenbrenner, London (44) 20-7176-3799; Niclas_Aschenbrenner@standardandpoors.com

Surveillance Credit Analyst:

Casper R Andersen, London (44) 20-7176-6757; casper_andersen@standardandpoors.com

OVERVIEW

- We have assigned a 'AAA/Stable' long-term rating and a 'A-1+' short-term rating to Realkredit Danmark's issuances of "særligt dækkede realkreditobligationer" out of its Capital Centre T. The outlook is stable.
- The portfolio backing the bonds consists of first or second-lien loans secured on residential, commercial, and multifamily mortgages in Denmark.
- Our ratings are based on our criteria for rating covered bonds. However, certain aspects of the methodologies and assumptions underlying these criteria are under review. As a result of this review, our future methodologies and assumptions applied to rate covered bonds may differ from the current criteria. The ratings on all outstanding covered bonds in these programs may be affected as a result of this review.

LONDON (Standard & Poor's) Jan. 18, 2012--Standard & Poor's Ratings Services today assigned a 'AAA' long-term credit rating and a 'A-1+' short-term credit rating to Realkredit Danmark A/S's (A/Negative/A-1) issuances of "særligt dækkede realkreditobligationer" (SDRO; Danish legislation-enabled covered bonds) out of its Capital Centre T. The outlook is stable (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.

Realkredit Danmark (RD) has already issued covered bonds (both "realkreditobligationer" as well as SDROs) out of existing capital centers. Each capital center is ring-fenced and there is no cross collateralization or

cross default between the individual centers. RD uses Capital Centre T primarily to finance adjustable-rate mortgage (ARM) loans by issuing SDROs with varying maturity dates.

If the issuer becomes insolvent, the covered bondholders would only have recourse to the individual capital center. An assigned administrator ("Kurator") would take on the responsibility of an orderly run-down of the cover pool and, if necessary, the refinancing of the mortgages.

As per our "Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds," published on Dec. 16, 2009, we evaluate cash flows generated by the cover pool and the cash flow required to service outstanding covered bonds under severe economic conditions. This evaluation aims to determine whether the assets in the cover pool are sufficient to meet the payments on the covered bonds in a timely manner.

This cash flow analysis assesses the cover pool's performance by considering:

- Credit risk (as described in the paragraphs below),
- Interest-rate and currency risk,
- ALMM risk resulting from cash flow mismatches between assets and liabilities in terms of maturity and from market value mismatches if the program has to liquidate assets,
- Prepayment risk and servicing costs, and
- An appropriate stress-testing of these risks, using our cash flow model (Covered bond monitor)

We assess the cover pool's credit risk as per our "Revised Criteria For Rating Danish Covered Bonds (Realkreditobligationer)," published on July 10, 2003 ("Danish covered bond criteria"), "Principles Of Credit Ratings," published on Feb. 16, 2011, and "Expanding European Covered Bond Universe Puts Spotlight On Key Analytics," published on July 16, 2004 ("spotlight on key analytics criteria").

Our Danish covered bond criteria only outline a high-level approach to determining the asset credit risk. However, they do not specify base assumptions and standard analytical adjustments. We derive the base foreclosure frequencies and market-value declines used for this credit analysis by comparing the base assumptions to levels in markets for which we have published criteria and have similar credit characteristics and mortgage performance. As stated in our spotlight on key analytics criteria, the methodology for this part of the analysis strongly resembles what we use for residential mortgage-backed securities (RMBS), and consequently we may use RMBS and commercial mortgage-backed securities (CMBS) transactions in the Danish market as benchmark when determining the analytical parameters. In the appendix, we list the base assumptions and analytical adjustments used in this analysis.

In our modeling, we use cash flow assumptions as per our "Credit Rating Model: Covered Bond Monitor 5.0," published on Aug. 17, 2010. We also apply certain aspects of our general cash flow criteria, "Cash Flow Criteria For European

RMBS Transactions," published on Aug. 2008 ("European RMBS cash flow criteria") because we consider these to be appropriate to apply to covered bonds, due to the similar cash flow risk nature of RMBS and covered bonds.

Our modeling indicates that high prepayment rates, which we consider to be as a result of the matched funding principles, may lead to a loss of margin earned on the mortgage loans, and prove more stressful to the cover pool in the current interest-rate environment.

The result of the stressed cash flow calculation is the ALMM, which we use, combined with the country category, to determine the maximum available uplift of our rating on the covered bond program above our issuer credit rating (ICR) on RD.

When determining the program categorization, we consider primarily our view of the jurisdiction of a program and its ability to access external financing or monetize the cover pool. Finally, we assign the covered bonds to one of three distinct categories. Under our criteria, to achieve the maximum potential number of notches of uplift, the available credit enhancement needs to be commensurate with the target credit enhancement.

We have reviewed the asset and cash flow information provided by RD as of Jan. 1, 2012--determining a "category 1" program categorization for Capital Centre T, and a current asset-liability mismatch (ALMM) measure of "low". According to our Danish covered bond criteria, the combination of both factors potentially allows for a seven-notch uplift above our ICR on RD.

Comparing our assessment of the target credit enhancement with the available credit enhancement, our analysis indicates 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 ICR on RD, or to the ALMM measure, would not automatically result in a change to the covered bond rating. We also consider that RD has the ability and willingness to manage the covered bonds at conditions commensurate with the ratings that we have assigned.

Table 1
Capital Centre T's Key Characteristics (As Of Jan. 1, 2012)

Classification of ALMM mismatch	Low
Program categorization	1
Maximum potential rating	AAA
Current available credit enhancement (%)	6.66
Target credit enhancement commensurate with the highest credit rating (%)	3.60

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

ALMM--Asset-liability mismatch.

TRANSACTION SUMMARY AND PORTFOLIO CHARACTERISTICS

Currently, Capital Centre T includes loans secured by mortgages on residential and commercial properties located in Denmark.

Table 2
Geographical Distribution (%)

Denmark	100.00
Copenhagen	29.12
Central Jutland	19.39
South Denmark	22.10
Zealand	19.39
North Jutland	8.77
Other	0.01

Most of the covered bonds have a one-year maturity term but maturities from two to ten years are also issued from the capital centre. The bonds currently outstanding were issued through auctions held in November and December 2011, and a further auction will be held in April 2012. Currently RD expects to continue this biannual auction structure, but would consider increasing the frequency of these depending on the market's development

Table 3
Distribution Of Bond Maturities (%)

One-year	82.8
Two-year	2.8
Three-year	6.9
Four-year	2.5
Five-year	4.6
Six to ten-year	0.4

Table 4
Property Type Distribution By Type (%)

Single family	58.23
Agriculture	16.02
Office	11.78
Private rental	6.98
Industrial	2.04
Subsidized housing	2.29
Tier one (hotels/social/cultural)	1.48
Cooperative housing	1.18

Approximately 16% of the assets in the capital centre are mortgages secured by agricultural properties. In the analysis of the asset quality these assets has been treated similar to mortgages secured by industrial properties because of the high level of industrialization of the agricultural sector in Denmark.

Most loans in Capital Centre T consist of ARM loans RD previously registered in either Capital Centre S or in Capital Centre General, and which are up for refinancing at the dates mentioned above. Capital Centre T however also includes newly originated ARM loans. As RD intends to remove ARMs from their existing capital centers, we expect that Capital Centre T's portfolio will eventually reflect the general credit and cash flow characteristics of RD's current total ARM portfolio. We expect the current concentration of the top 20 loans (3.62%) to decrease further as loans are refinanced in the new capital center.

RD applies the specific balance principle to issue the SDROs, often associated with matched funding, which matches interest rate and maturity profiles. However, to fund the ARM mortgages, the bonds issued only match the loan's interest profile, not the legal maturity. By law and contractual terms, RD must provide continuous funding by issuing new covered bonds at pre-agreed intervals until the loan reaches maturity.

Further, the borrower is contractually obligated to accept the full cost of funding for the mortgages. Due to the specifics of the balance principle of the Danish mortgage system, we do not model a sale of the cover pool at the first maturity of the bond, but assume that the issuer will refinance the bond at (stressed) market rates. We consider the refinancing of the adjustable-rate loans to be a potential credit risk as interest may increase substantially between interest reset periods, and hence expose the borrower to the risk that a loan's scheduled future periodic payments may increase substantially (a "payment shock"). We have therefore increased our base case foreclosure frequency rate for ARMs by 20%.

We have currently not observed any higher refinancing cost for this type of mortgage. Should we observe an increase in funding costs of ARMs compared with other mortgage products, we may reflect the different investor perception by adjusting our refinancing assumptions accordingly.

Table 5
Key Portfolio Characteristics (As Of Jan. 1, 2012)

Total principal balance (DKK)	198,779,476,510
Bonds outstanding (DKK)	186,365,939,296
Total number of loans	98,870
Largest loan value (DKK)	960,377,472
Average loan (DKK)	1,884,959

Average whole loan LTV ratio per asset type (%) [1]

Whole pool	62.17
------------	-------

Ratings Assigned To Realkredit Danmark's Capital Centre T Covered Bond Issuances

Retail/industry/office/private rental	57.06
Agricultural	52.89
Tier one (hotels/social/cultural)	45.88
Subsidized housing	77.99

Current level of arrears in the portfolio (%)

Whole pool	1.65
Single family	0.96
Subsidized housing	0.60
Tier one (hotels/social/cultural)	2.57
Subsidized housing	0.60

Seasoning (months)

Whole pool	53.0
Single family	52.0
Retail/industry/office/private rental	50.4
Agricultural	55.8
Tier one (hotels/social/cultural)	57.4
Subsidized housing	77.0

Proportion of ARMs (%)	100
Proportion of IO loans (%) [2]	67.47
Top 20 loans as % of pool	3.62
Reserve fund (%)	6.66

Reserve fund composition (%)

RD Capital Centre S SDROs	57.91
RD Capital Centre T SDROs	28.82
RD Capital Centre Gen SDROs	0.88
Nykredit Realkredit A/S Covered Bonds	10.44
Other Danish covered bonds	0.32
Danish government bonds	1.63

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

[2]Single family only.

LTV--Loan-to-value.

ARMs--Adjustable-rate mortgages.

SDROs--"særligt dækkede realkreditobligationer".

Our credit analysis accounts for these characteristics and comprises:

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

Ratings Assigned To Realkredit Danmark's Capital Centre T Covered Bond Issuances

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' level the closing WAFF and WALS results as of Jan. 1, 2012 are:

WAFF	22.54%
WALS	25.40%

Assumed net credit loss (WAFF x WALS)	5.73%
--	-------

Effective on Jan. 1, 2012, RD increased the pricing of its mortgage loans, which increased the spread earned on the assets.

For all loans in Capital centre T the margin has been increased 10bps plus an additional 2.48bps for the loans with interest only features. In addition various other changes to RD's pricing structure for certain mortgage products have resulted in further increases in the spread earned.

Given the relatively long term of the mortgages the spread earned on the assets becomes an important factor in our cash flow simulation since it partly covers the assumed net credit loss described above. As a result of the relatively high spread RD earns on the asset held in capital centre T the target credit enhancement commensurate with the highest credit rating of 3.60% is lower than the assumed net credit loss of 5.73%.

RD has stated that it intends to continue transferring ARM loans from their existing capital centers into Capital Centre T. The loans are moved as outstanding covered bonds mature and are refinanced from Capital Centre T. While RD aims to maintain a low-risk pool commensurate with the current ratings that we have assigned, the envisaged changes to Capital Centre T would likely result in some changes to the credit risk in the portfolio.

POTENTIAL EFFECTS OF PROPOSED CRITERIA CHANGES

We have assigned the ratings on these covered bonds based on our criteria for rating covered bonds (see "Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds," published on Dec. 16, 2009).

As part of our cash flow analysis, we used Standard & Poor's Covered Bond Monitor to calculate the target credit enhancement for the covered bonds. However, the assumptions and methodologies used in this cash flow analysis are under review (see "Advance Notice Of Proposed Criteria Change: Methodologies And Assumptions For Rating Certain Covered Bonds And CDOs," published on Aug. 5, 2010).

This review may result in further changes to the criteria. As a result, our future assumptions and methodologies used in our Covered Bond Monitor model may differ from our current criteria. The criteria change may affect the ratings on all outstanding covered bonds in this program. Until such time that

we adopt new criteria for rating covered bonds, we will continue to rate and survey these covered bonds using our existing criteria (see "Related Criteria And Research").

APPENDIX

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

Table 6

Base WAFF (%)

AAA 12

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 benefit

Between 10% and 25% reduction to base for loans with a seasoning of 18-60 months, no adjustment applied to loans in arrears.

Buy-to-let loans

Base multiplied by 1.67.

Floating interest rate without cap (ARM loans)

20% addition of the base foreclosure frequency.

Jumbo loans (> DKK 3,000,000)

1% to 20% addition to the base foreclosure frequency. (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. Increase of the base foreclosure frequency to 75%.

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

Table 9

Adjustment To Original Valuation

Valuation haircut 10% reduction on valuations made
Between Q1 2005 and Q4 2008.
Applied in the calculation of
WALS only.

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).

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 for loans with a seasoning of 18-60 months, 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 Original Valuation

Valuation haircut 10% reduction on valuations made
 Between Q1 2005 and Q4 2008.
 Applied in the calculation of
 WALS only.

WALS--Weighted-average loss severity.

KEY ASSUMPTIONS FOR OUR CASH FLOW ANALYSIS OF DANISH MORTGAGE LOANS

We assume an 18-month recovery period for defaults of residential mortgages and a 36-month recovery period of commercial mortgages, reflecting the higher complexity (lack of standardization) of commercial properties, and the higher servicing costs involved. We test the structure assuming low (0.5%) and high

(24.0%) prepayments.

RELATED CRITERIA AND RESEARCH

- 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
- Advance Notice Of Proposed Criteria Change: Methodologies And Assumptions For Rating Certain Covered Bonds And CDOs, Aug. 5, 2010
- Credit Stability Criteria, May 3, 2010
- Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds, Dec. 16, 2009
- Update To The Cash Flow Criteria For European RMBS Transactions, Jan. 6, 2009
- European Legal Criteria For Structured Finance Transactions, Aug. 28, 2008
- Applying The Derivative Counterparty Framework To Covered Bonds, Feb. 26, 2008
- Revised Framework For Applying Counterparty And Supporting Party Criteria, May 8, 2007
- Expanding European Covered Bond Universe Puts Spotlight On Key Analytics, July 16, 2004
- Cash Flow Criteria For European RMBS Transactions, Nov. 20, 2003
- Revised Criteria For Rating Danish Covered Bonds (Realkreditobligationer), July 10, 2003

Related articles are available on RatingsDirect. Criteria, presales, servicer evaluations, and ratings information can also be found on Standard & Poor's Web site at www.standardandpoors.com. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4011.

RATINGS LIST

Program/ Rating
Country: Covered bond type

RATINGS AND OUTLOOK ASSIGNED

Realkredit Danmark A/S - Capital Centre T
Long-term: AAA/Stable
Short-term: A-1+
Denmark: Særligt Dækkede Realkreditobligationer (Legislation-Enabled Covered Bonds)

Additional Contacts:

Structured Finance Europe; StructuredFinanceEurope@standardandpoors.com
Covered Bonds Surveillance; CoveredBondSurveillance@standardandpoors.com

Copyright © 2013 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.