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Transaction Update: Realkredit Danmark A/S (Capital Center S Mortgage Covered Bond Program)

Unlimited SDROs ("saerligt daekkede realkreditobligationer")

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Ratings Detail

Reference Rating Level	aa-		Jurisdictional-Supported Rating Level	aaa		Maximum Achievable Covered Bond Rating	aaa		Covered Bond Rating	
Resolution Regime Uplift	+2	+	Jurisdictional Support Uplift	+3	+	Collateral Support Uplift	+3	=	AAA/Stable	
Systemic Importance	Very Strong		Jurisdictional Support Assessment	Very Strong		Overcollateralization Adjustment	-1		Rating Constraints	aaa
Adjusted Issuer Credit Rating	a					Liquidity Adjustment	0		Counterparty Risk	aaa
GRE And Sovereign Support	0		Legal Framework	Very Strong		Available Credit Enhancement	+4		Country Risk	aaa
Issuer Credit Rating	A		Systemic Importance	Strong						
			Sovereign Credit Capacity	Very Strong						

Under our Group Rating Methodology, Realkredit Danmark A/S is a core subsidiary of Danske Bank A/S. We therefore raise the ratings on the covered bonds according to the long-term issuer credit rating on Danske Bank A/S.

Major Rating Factors

Strengths

- Jurisdiction-supported rating level (JRL) of 'aaa', resulting in a low level of overcollateralization required to maintain the 'AAA' rating.
- The match-funded structure of the capital center helps to mitigate liquidity risk.

Weakness

- Aside from the legislative minimum, no other commitment regarding available overcollateralization in the cover pool.

Outlook

Standard & Poor's Ratings Services' stable outlook on its ratings on Realkredit Danmark A/S' Capital Center S mortgage covered bonds reflects the fact that we would not automatically lower our ratings on the covered bonds if we were to downgrade Danske Bank A/S, Realkredit Danmark's parent company. This is because, under our covered bonds criteria, the program is eligible for six notches of uplift above the rating reference level (RRL) of 'aa-', but only requires three notches to achieve a 'AAA' rating (see "Covered Bonds Criteria," published on Dec. 9, 2014).

Rationale

We are publishing this transaction update as part of our review of Realkredit Danmark's Capital Center S mortgage covered bond program. On Feb. 10, 2016, we affirmed our 'AAA' credit ratings on the Capital Center S covered bond program and all series of "særligt dækkede realkreditobligationer" (SDRO) covered bonds issued under it (see "Ratings Affirmed on Realkredit Danmark's Capital Center S Mortgage Covered Bonds Following Review; Outlook Stable").

Our covered bonds ratings process follows the methodology and assumptions outlined in our covered bonds criteria.

From our analysis of the legal and regulatory framework for covered bonds in Denmark, we believe that the assets in Realkredit Danmark Capital Center S's cover pool are isolated from the risk of the issuer's bankruptcy or insolvency. This asset isolation allows us to assign a higher rating to the covered bond program than the long-term issuer credit rating (ICR) on Danske Bank. Although the issuer of the covered bonds is Realkredit Danmark, we use the rating on Danske Bank A/S as the starting point of our analysis. This is because, in accordance with our criteria "Group Rating Methodology," published on Nov. 19, 2013, we consider Realkredit Danmark to be a core entity of Danske Bank.

In accordance with our covered bonds criteria, we determine the issuer's RRL, and attribute notches of uplift from this level by assessing jurisdictional support and collateral-based support. Based on Danske Bank's long-term ICR of 'A' and our assessment of jurisdictional support, we assess the RRL at 'aa-' and the JRL at 'aaa'. In addition, the program could benefit from up to four notches of collateral-based uplift.

We determine the total collateral-based uplift by analyzing the cover pool's asset credit quality, payment structure, and cash flow mechanics. As of Sept. 30, 2015, the cover pool amounts to Danish krone (DKK) 250 billion, made up of residential and commercial mortgages and substitute assets (commonly called a "reserve fund" in traditional Danish covered bonds).

We generally analyze the cover pool's mortgage credit quality with the help of two key indicators:

- The weighted-average foreclosure frequency (WAFF), which reflects the expected default rate; and
- The weighted-average loss severity (WALS), which describes the expected loss given default.

Our analysis, as of Sept. 30, 2015, shows that the available credit enhancement is 9.56%. This is greater than the 2.62% credit enhancement commensurate with a 'AAA' rating, which corresponds in this instance with the coverage of 'AAA' credit risk.

As part of our analysis, we reviewed Realkredit Danmark's origination, underwriting, collection, and default management procedures. We believe satisfactory policies are in place to support our ratings on the covered bonds. As there are no further legal, counterparty, or country risk constraints on our rating, we have affirmed our 'AAA' rating on the program.

Our covered bond ratings criteria outlines our rating methodology (see "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015).

Program Description

Table 1

Program Overview*	
Jurisdiction	Denmark
Year of first issuance	2007
Covered bond type	Legislation-enabled
Outstanding covered bonds (bil. DKK)	230.3
Redemption profile	Mixed
Underlying assets	Residential and commercial mortgages
Jurisdictional support uplift	3
Unused notches for jurisdictional support	0
Target credit enhancement (%)§	5.92
Credit enhancement commensurate with rating (%)	2.62
Available credit enhancement (%)	9.56
Collateral support uplift	3
Unused notches for collateral support	3
Total unused notches	3

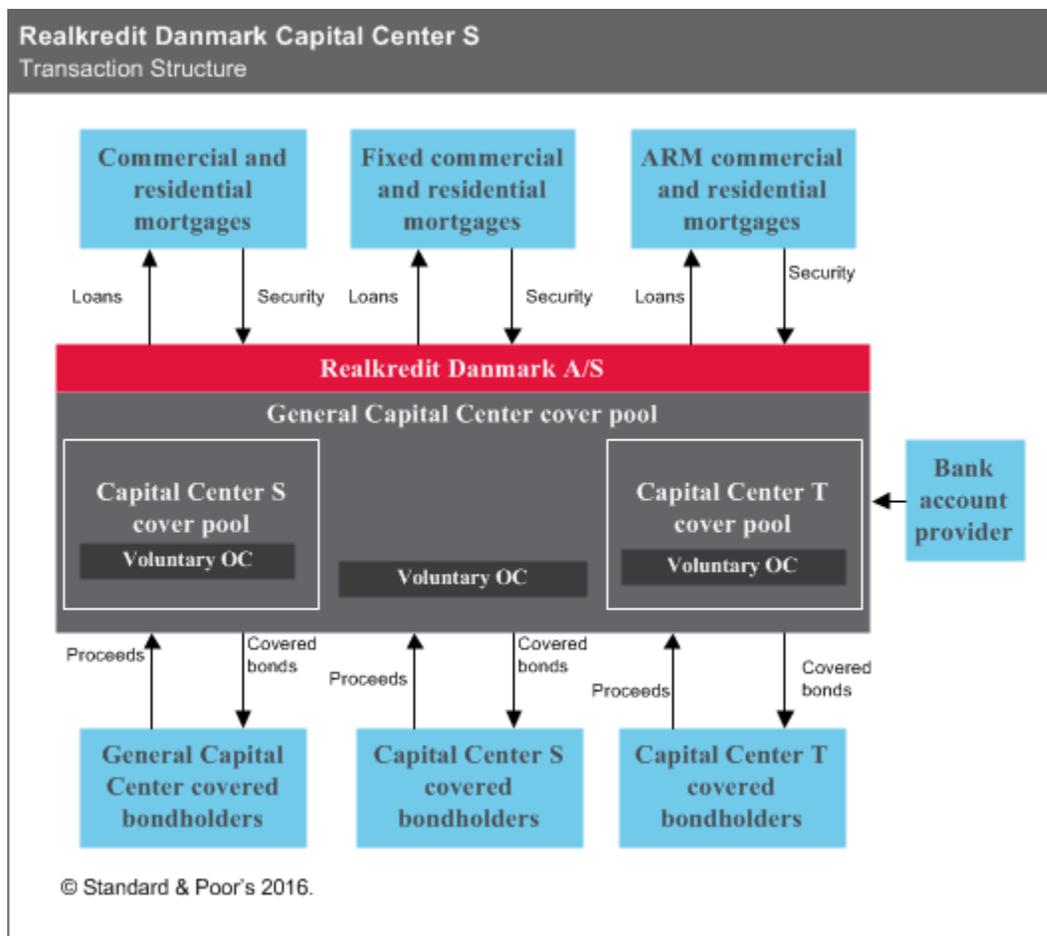
*Based on data as of Sept. 30, 2015. §Level of credit enhancement corresponding to 100% of refinancing costs.

Realkredit Danmark is a wholly-owned subsidiary of Danske Bank and is a specialist mortgage bank in Denmark, second in size to Nykredit Realkredit A/S. Realkredit Danmark is an established issuer of Danish mortgage covered bonds, "realkreditobligationer" (ROs), and SDROs.

Capital Center S is currently actively issuing bonds, which includes mortgage assets--backed by both residential and commercial properties--as well as a reserve fund consisting primarily of Danish covered bonds.

Danske Bank acts as the main bank account provider. To mitigate counterparty risk, the issuer has replacement language in place, which is in line with our current counterparty criteria (see "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013).

The cover pool assets would be ring-fenced if Realkredit Danmark were to become insolvent under the respective Danish legislative framework. SDRO covered bondholders have a primary secured claim against all assets in the cover pool.



Rating Analysis

Legal and regulatory risks

We analyzed legal risk by applying our European legal criteria and our criteria for rating covered bonds (see "Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance," published on Sept. 13, 2013, and other covered bond ratings criteria listed in "Related criteria").

In our view, the Danish covered bond framework sufficiently addresses the relevant legal aspects of our covered bond and European legal criteria. This enables us to rate the covered bonds above our long-term ICR on the issuer's parent bank. The Danish Covered Bond Act provides the legal framework for the issuance of the Danish covered bonds.

SDRO covered bond investors have a primary secured claim against all assets in the cover pool. The ratings on the covered bonds issued from Capital Center S rely on the issuer's active management of the overcollateralization to support the current ratings.

To become eligible as collateral, mortgage loans must be entered in the Danish land register. The registration is legally binding and will form the basis of any bankruptcy proceedings. If bankruptcy proceedings have been initiated, a trustee

appointed by the bankruptcy court will administer the cover pool assets. The trustee is ordered by law to meet all payment obligations as they fall due. If payments from the cover pool assets are insufficient to meet the payment obligations, the trustee has the authority to raise additional loans.

The issuer must maintain an overcollateralization of at least 8% of risk-weighted assets. Banking supervision is carried out by the Danish Financial Supervisory Authority (DFSA, or Finanstilsynet). The DFSA has the authority to issue an order with which the issuer must comply. In case of severe or multiple breaches, the DFSA may revoke the license.

Operational and administrative risks

In June 2015, we conducted a review of Realkredit Danmark's origination, underwriting, collection, and default management procedures for the capital center's cover pool assets. We also reviewed the cover pool's management and administration. We consider that Realkredit Danmark actively manages the cover pool and has strict underwriting and loan management policies. In addition to an annual meeting, we have ongoing regular contact with the issuer.

We analyzed operational and administrative risk by applying our covered bonds criteria.

Resolution regime analysis

As part of our covered bonds criteria, our analysis considers any resolution regime in place in Denmark to determine the RRL. The EU's Banking Resolution and Recovery Directive (BRRD) was transposed into Danish law and came into effect on June 1, 2015. In Denmark, mortgage credit institutions like Realkredit Danmark are excluded from bail-in, but are required to issue a certain amount of "bail-inable" debt instruments. This does not affect our resolution regime analysis, as the covered bonds are still protected during resolution. As such, we assign two notches of uplift from the adjusted ICR, resulting in a RRL of 'aa-'.

Jurisdictional support analysis

In analyzing jurisdictional support, we assess the likelihood of a covered bond under stress receiving support from a government-sponsored initiative instead of from the liquidation of collateral assets in the open market. Our assessment of jurisdictional support for mortgage programs in the Denmark is very strong (see "Assessments For Jurisdictional Support According To Our Covered Bonds Criteria," published on Dec. 22, 2015). The assessment of "very strong" means that the program can receive up to three notches of jurisdictional uplift. The JRL is therefore 'aaa'. This is the rating the program can achieve by covering the legal minimum overcollateralization requirement, according to our covered bonds criteria.

Collateral support analysis

We have reviewed the mortgage asset and substitute collateral information as of Sept. 30, 2015. We have analyzed the mortgage loan-by-loan data from the issuer and applied stresses commensurate with a 'AAA' rating scenario to estimate the WAFF and WALs. The cover pool primarily comprises Danish residential and commercial mortgages (91.4%), and also includes substitute assets (8.6%).

The WAFF is slightly lower compared to June 2014, at 17.83%. On the other hand, WALs has increased to 32.18% from 30.20% during the same period. These results are mostly driven by the application of our new criteria for commercial real estate mortgage loans, which include higher market value decline assumptions (CRE criteria, see "Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered

Bonds," published on March 31, 2015).

From a foreclosure frequency standpoint, its effect is broadly neutral, with favorable (no more adjustment for adjustable-rate mortgage loans, lower adjustment for geographic concentration) and unfavorable impact (no more benefit given the seasoning, more conservative adjustment for high loan-to-value ratios).

Loss severity increases due to higher market value decline assumptions as well as a higher proportion of jumbo loans in the cover pool.

Our credit analysis of the substitute pool (also referred to as the "reserve fund") includes an asset-by-asset review of underlying securities to estimate the credit risk of each individual exposure. To determine the default and loss on the reserve fund, we apply our "Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities," published on Dec. 9, 2014.

We consider the pool of substitute assets to exhibit low granularity as the 10 largest obligors account for over 99% of total substitute assets. For low granularity pools, in a 'AAA' stress scenario, we assume that assets with a Standard & Poor's rating of 'AAA' will not default, save for covered bonds that are issued by other Realkredit Danmark capital centers (we assume these default as our analysis presumes the issuer has already defaulted). For the assets that default, we determine the recovery by applying paragraphs 76 and 77 of the aforementioned criteria. As all of the bonds that we assume to default are structurally match-funded covered bonds, we are able to apply higher recoveries (see table 5 of the criteria). The analysis results in an assumed default rate of the reserve fund of 25.69% and a recovery rate of 85.89%.

Table 2

Program Participants			
Role	Name	Rating	Rating dependency
Issuer	Realkredit Danmark A/S	NR*	Yes
Originator	Realkredit Danmark A/S	NR	No
Servicer	Danske Bank A/S	A/Stable/A-1	No
Bank account provider	Danske Bank A/S	A/Stable/A-1	Yes
Bank account provider	Jyske Bank A/S	A-/Stable/A-2	Yes
Bank account provider	Nordea Bank Danmark A/S	AA-/Negative/A-1+	Yes
Bank account provider	Grønlandsbanken	NR	Yes

*In our analysis, we uplift the rating from the issuer credit rating on the parent Danske Bank A/S.

Table 3

Asset type	As of Sept. 30, 2015		As of June 30, 2014	
	Value (DKK)	Percentage of cover pool (%)	Value (DKK)	Percentage of cover pool (%)
Residential mortgages	152,115,959,291	60.74	138,921,381,907	59.22
Subsidized housing	23,107,481,211	9.23	21,105,071,240	9.00
Commercial mortgages	53,659,939,312	21.43	51,856,240,902	22.11
Substitute assets	21,566,485,638	8.61	22,705,254,270	9.68
Total	250,449,865,452	100.00	234,587,948,319	100.00

Table 4

Key Credit Metrics		
	As of Sept. 30, 2015	As of June 30, 2014
Weighted-average LTV ratio (%)	65.38	61.86
Weighted-average loan seasoning (months)*	28.09	37.18
Balance of loans in arrears (%)	0.34	0.47
Credit analysis results		
Weighted-average foreclosure frequency (%)	17.83	18.14
Weighted-average loss severity (%)	32.18	30.20
AAA credit risk (%)	5.74	2.50

LTV--Loan to value. N/A--Not available. *Seasoning refers to borrower's relationship term, as loans are often refinanced.

Table 5

Covered Pool Assets By Loan Size		
	Percentage of cover pool (%)	
Residential assets (DKK '000s)	As of Sept. 30, 2015	As of June 30, 2014
0-500	4.90	5.24
500-1,000	21.84	23.33
1,000-1,500	24.16	25.92
1,500-2,000	17.42	18.22
2,000-2,500	11.89	11.67
2,500-3,000	6.93	6.12
Greater than 3,000	12.85	9.50

DKK--Danish krone.

Table 6

Loan-To-Value Ratios		
	As of Sept. 30, 2015*	As of June 30, 2014
	Percentage of sub cover pool (%)	
Residential and subsidized assets (%)		
0-60	36.85	32.61
60-70	17.02	15.89
70-80	23.67	22.77
80-90	17.15	18.97
90-100	0.63	4.77
Above 100	4.69	5.01
Commercial assets (%)		
0-60	59.76	57.45
60-70	15.85	14.19
70-80	11.16	14.61
80-90	8.53	7.84
90-100	2.39	1.14
Above 100	2.34	4.77

Table 6

Loan-To-Value Ratios (cont.)		
Weighted-average LTV ratio	65.38	61.86

*LTV ratios presented here are calculated by aggregating all exposures at a borrower level. LTV--Loan to value.

Table 7

	Percentage of portfolio (%)	
	As of Sept. 30, 2015	As of June 30, 2014
Residential and subsidized assets		
Less than 18 months	55.75	27.48
18-24 months	4.38	17.78
24-36 months	13.45	18.45
36-48 months	11.27	15.17
48-60 months	4.56	6.75
More than 60 months	10.09	14.02
Weighted-average loan seasoning (months)	25.84	35.17

*Seasoning refers to borrower's relationship term, as loans are often refinanced. Performing loans only.

Table 8

	As of Sept. 30, 2015	As of June 30, 2014
	Percentage of cover pool (%)	
Regional concentration		
Residential and subsidized assets		
Central Denmark Region	17.88	18.33
North Denmark Region	6.12	6.61
Region Zealand	18.84	19.50
Region of Southern Denmark	18.64	19.01
Capital Region of Denmark	38.52	36.56
Total	100.00	100.00
Commercial assets		
Central Denmark Region	17.53	18.11
North Denmark Region	7.32	7.61
Region Zealand	11.68	11.70
Region of Southern Denmark	19.02	20.97
Capital Region of Denmark	43.92	41.05
Other in Denmark	0.53	0.55
Total	100.00	100.00

Our analysis of the covered bonds' payment structure shows that cash flows from the cover pool assets would be sufficient, at the existing rating level, to make timely payments of interest and principal to the covered bondholders.

As there is an active secondary market for mortgages in Denmark, the program can benefit from up to four notches of collateral-based uplift according to our covered bonds criteria. Before determining the number of collateral-based

notches needed to reach a 'AAA' rating, we consider the following adjustments:

- According to paragraphs 73-74 of the criteria, a one-notch reduction applies if the program does not benefit from at least six months of liquidity. Due to the match-funded nature of the Realkredit Danmark Capital Center S, we consider that liquidity coverage is met. Each covered bond is matched to a specific mortgage loan, and any payments from the loan will be used to make payments on the bond.
- According to paragraph 76 of the criteria, a further one-notch reduction applies if the program does not benefit from any form of commitment on overcollateralization. As Realkredit Danmark's Capital Center S only has voluntary overcollateralization without any commitment, this results in a one-notch reduction to the potential collateral-based uplift.

Given the JRL of 'aaa', the program only needs to cover 'AAA' credit risk to reach a 'AAA' rating. In addition, under our CRE criteria, we apply an out-of-model supplemental test to address borrower concentration risk. In this instance, the 'AAA' credit risk is not floored by this test.

In particular, this supplemental test captures concentration risks in the cover pool. The assumed number of defaulted obligors is a function of the applicable stress scenario ('AAA', in our case) and the obligors' credit quality. Since assets in this pool are not rated, we assume an obligor rating in the 'B' to 'CCC-' range, so the credit enhancement commensurate for the cover pool is at least equal to the loss related to the 10 largest obligors, as defined by the gross outstanding balance of the largest loans in the cover pool. This represents 1.21% of overcollateralization. In order to cover a 'AAA' credit stress scenario, the available credit enhancement must exceed the higher of this net loss result and our measure of 'AAA' credit stress. Therefore, the minimum level of overcollateralization to maintain 'AAA' ratings on the covered bonds is 2.62%.

We analyzed the cash flows under 'AAA' credit stresses, as well as liquidity, interest rate, and currency stresses to reflect the fact that the pool does not have recourse to derivatives but relies on "natural hedging." The terms of the issued bonds match those of the underlying mortgages due to the balancing principle. We also ran different default timing and prepayment patterns.

In our analysis the recession starts on day one. This is because we assume the insolvency of the issuing bank as the starting point of the analysis, and we assume that the bank would default at the beginning of the 'AAA' recession.

For prepayments, we ran a "low" scenario, with a 0.5% conditional prepayment rate (CPR) and a "high" scenario with a 24% CPR.

The target credit enhancement has increased to 5.92% in September 2015 from 5.64% in June 2014, driven by the higher WALs, as discussed above.

Our cash flow analysis is based on the applicable criteria in the "Related criteria" section below.

Table 9

Collateral Uplift Metrics		
	As of Sept. 30, 2015	As of June 30, 2014
Asset WAM (years)	12.95	13.29
Liability WAM (years)	14.04	14.59

Table 9

Collateral Uplift Metrics (cont.)		
Available credit enhancement (%)	9.56	10.71
AAA' Credit Risk (%)	2.62	2.50
Required credit enhancement for first notch of collateral uplift (%)	3.45	N/A
Required credit enhancement for second notch of collateral uplift (%)	4.27	N/A
Required credit enhancement for third notch collateral uplift (%)	5.10	N/A
Target credit enhancement for maximum uplift (%)	5.92	5.64
Potential collateral-based uplift (notches)	4	N/A
Adjustment for liquidity (Y/N)	N	N/A
Adjustment for committed overcollateralization (Y/N)	Y	N/A
Collateral support uplift (notches)	3	N/A

WAM--Weighted-average maturity. N/A--Not applicable.

Counterparty risk

We have identified several counterparty risks to which the covered bonds could be exposed. However, these are mitigated through either structural mechanisms, or by applying the Danish Covered Bond Act. Therefore, we consider them not to constrain our ratings on the covered bonds.

Commingling risk. The collection accounts are not held in Capital Center S's name, but under Realkredit Danmark's name. This introduces potential commingling risk. Indeed, the funds in the accounts are commingled with the funds collected for the other Realkredit Danmark capital centers, as well as with Realkredit Danmark's funds. However, under the Danish covered bond legislation, we understand that covered bondholders have the right to these funds. Therefore, we do not consider cash to be lost, but that it could be temporarily unavailable for a period of time. Therefore, commingling risk amounts not to a credit loss but to a liquidity stress.

Due to the balance principle in Danish covered bond law, mortgage banks in practice do not hold large cash balances but reinvest payments received before the bond due date for securities whose maturity matches the remaining maturity and interest of such bonds. Given the limited time--less than a working day--that funds stay in bank accounts, we do not apply a liquidity stress in our cash flow calculations.

Bank account providers. Several banks provide accounts for the program. Incoming cash is invested in a defined group of high-quality assets intraday. As a result, the cash balance on any collection accounts is managed to be as close to zero as practically possible. To mitigate bank account and commingling risk, the issuer has replacement language in place, which is in line with our counterparty criteria. The issuer commits to holding less than 5% cash with commercial banks that are rated at least 'BBB/A-2'. If the bank account provider does not meet this ratings requirement, Realkredit Danmark will make commercially reasonable efforts to replace the account holding bank with a bank that meets our criteria within 30 calendar days.

Derivatives. There are no swap counterparties in the program.

Set-off risk. The issuer is not a deposit-taking institution. The program is therefore not exposed to set-off risk.

Country risk

Where applicable, our "Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance" criteria cap our covered bond ratings. This criteria applies to single-jurisdiction cover pools such as Capital Center S, where obligors in the pool are all located in Denmark. Under this criteria, we consider the

exposure to country risk to be moderate, which allows the program to achieve four notches of uplift above the long-term sovereign rating on Denmark (AAA/Stable/A-1+). Therefore, country risk does not constrain our ratings on the covered bonds.

Potential Effects Of Proposed Criteria Changes

Our analysis is based on our current applicable criteria, including those set out in the criteria article "Methodology And Assumptions For Analyzing Mortgage Collateral In Danish Covered Bonds," published on May 2, 2012. On Nov. 13, 2015, we published a notification announcing our intent to revise these criteria (see "Advance Notice Of Proposed Criteria Change: RMBS In Certain European Jurisdictions"). As a result, our future assumptions and methodologies may differ from our current criteria.

Related Criteria And Research

Related Criteria

- Counterparty Risk Analysis In Covered Bonds, Dec. 21, 2015
- Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance, May 29, 2015
- Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds, March 31, 2015
- Covered Bonds Criteria, Dec. 9, 2014
- Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities, Dec. 9, 2014
- Group Rating Methodology, Nov. 19, 2013
- Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Sept. 13, 2013
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Methodology And Assumptions For Analyzing Mortgage Collateral In Danish Covered Bonds, May 2, 2012
- Update To The Cash Flow Criteria For European RMBS Transactions, Jan. 6, 2009
- Methodology: Credit Stability Criteria, May 3, 2010
- Understanding Standard & Poor's Rating Definitions, June 3, 2009
- Commercial Paper I: Banks, March 23, 2004
- Cash Flow Criteria for European RMBS Transactions, Nov. 20, 2003

Related Research

- Ratings Affirmed on Realkredit Danmark's Capital Center S Mortgage Covered Bonds Following Review; Outlook Stable, Feb. 10, 2016
- Global Covered Bond Characteristics And Rating Summary Q4 2015, Dec. 29, 2015
- Assessments For Jurisdictional Support According To Our Covered Bonds Criteria, Dec. 22, 2015
- Assessments For Target Asset Spreads According To Our Covered Bonds Criteria, Dec. 22, 2015
- Advance Notice Of Proposed Criteria Change: RMBS In Certain European Jurisdictions, Nov. 13, 2015
- Danish Covered Bond Index Report H1 2015: Collateral Performance Improves, Aug. 14, 2015
- Covered Bond Monitor: Technical Note, Aug. 12, 2015
- Danske Bank A/S, July 31, 2015

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- Various Rating Actions On Four Danish Banks After Review Of Government Support And Additional Loss-Absorbing Capacity, July 13, 2015
- Advance Notice Of Proposed Criteria Change: Covered Bonds Counterparty And Supporting Obligations, March 5, 2015
- Banking Industry Country Risk Assessment: Denmark, Dec. 10, 2014
- Credit FAQ: The Danish Covered Bond Market Explained, July 15, 2014

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