

# RatingsDirect®

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## Ratings Raised On Danish Section 15 Bonds From Six Capital Centers Following Clarification On Bank Resolution

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### OVERVIEW

- On June 16, 2015, we placed on CreditWatch negative our ratings on the section 15 bonds issued by Nykredit Realkredit and DLR Kredit.
- We align our ratings on the section 15 bonds issued by these banks with the rating reference level of the senior covered bonds from the same capital center.
- Consequently, we have today raised and removed from CreditWatch negative our ratings on Nykredit Realkredit's and DLR Kredit's section 15 bonds to reflect the protection from a deferral of payments under a bank resolution.
- At the same time, we have raised our ratings on the section 15 bonds issued by Realkredit Danmark.
- The outlooks on our ratings on the section 15 bonds reflect the outlooks on the senior unsecured debt ratings on the issuers.

LONDON (Standard & Poor's) Dec. 11, 2015--Standard & Poor's Ratings Services today said that it raised and removed from CreditWatch negative its credit ratings on all Danish section 15 bonds issued from Nykredit Realkredit A/S' capital centers D, E, and H and DLR Kredit A/S' capital center B. At the same time, we have raised our ratings on the section 15 bonds issued by Realkredit Danmark A/S' capital centers S and T. The outlooks on our ratings on the section 15 bonds reflect the outlooks on the senior unsecured debt ratings on

the issuers (see list below).

The issuers of the section 15 bonds are all "Realkreditinstituter" (Danish specialized mortgage credit institutions or MCIs).

On June 16, 2015, we placed on CreditWatch negative our ratings on the section 15 bonds issued by Nykredit Realkredit and DLR Kredit to reflect the same rating actions on the issuing MCIs (see "Ratings On Danish Section 15 Bonds Placed On CreditWatch Negative Following Similar Bank Rating Actions" and "Various Rating Actions On Danish Banks On EU Bank Recovery And Resolution Directive To Be Implemented In Denmark," published on May 12, 2015).

Our CreditWatch negative placements of our ratings on the section 15 bonds reflected unresolved questions from market participants about how the EU Bank Recovery and Resolution Directive (BRRD) legislation may operate in practice. At the time that we made these CreditWatch placements, we had outstanding questions as to whether the payment on section 15 bonds would automatically be deferred in the event of issuer resolution.

If these bonds were subject to deferral upon resolution, our ratings would reflect the senior unsecured rating on the issuer. Following additional clarification from market participants, we have modified our criteria interpretation for Danish section 15 bonds (see "Covered Bonds Criteria," published on Dec. 9, 2014). Specifically, under these criteria, we have aligned our ratings on the section 15 bonds to the reference rating level (RRL) of the senior covered bonds. Previously, we had aligned the ratings on the bonds to the senior unsecured ratings on the issuer. This is because we now consider the section 15 bonds to have the same protection if there is a bank resolution, as senior covered bonds, based on these factors:

- The implementation of the BRRD legislation in Denmark does not envision bail-in of the section 15 bonds. Further, we understand that the section 15 bonds will not experience a payment deferral so long as the proceeds from the cover pool are sufficient to meet the payments on the senior covered bonds.
- In our view, the potential difference between the issuer credit rating (ICR) and the RRL reflects the difference in protection from bail-in under the BRRD.
- The purpose of the section 15 bonds does not warrant the assignment of any jurisdictional support uplift (JRL) as typically contemplated for traditional covered bonds under our covered bonds criteria. The volume of section 15 bonds is very small and we would not consider it to be systemically important enough to warrant jurisdictional intervention.
- We do not consider any collateral-based uplift. This is because we do not believe that the issuers of section 15 bonds will manage their overcollateralization levels in the same way as what we typically expect for covered bonds.

Under our "Group Rating Methodology," we consider Realkredit Danmark to be a core entity to its parent, Danske Bank A/S. We therefore apply our covered

bonds criteria based on the long-term ICR on Danske Bank.

Despite these considerations, if the issuer defaults on its senior unsecured debt, and in applying our "Principles For Rating Debt Issues Based On Imputed Promises" criteria, we would assess whether we can rate the section 15 bonds higher than the senior unsecured ratings at the time, and for this purpose, we would consider:

- The likelihood that cover pool proceeds will be sufficient to fully repay section 15 bondholders. If we consider that there is virtual certainty that cover pool cash flows would not be sufficient, we would lower the ratings to 'D'. We would incorporate into our analysis the rate of interest during the deferral period, on which current documentation remains unclear, and impute a final maturity date as no hard date is specified in the documentation.
- We will apply sector-specific criteria or analyses to determine whether a deferred payment would lead to a lower rating or to a default.

We have raised our ratings on the section 15 bonds to reflect the clarification that they will not be subject to a payment deferral in the event of issuer resolution. The ratings are aligned with the RRLs of the senior covered bonds issued from the same capital center. Similarly, our CreditWatch negative resolutions reflect this same clarification regarding the payment deferral.

The outlooks on our ratings on the section 15 bonds reflect the outlooks on the senior unsecured ratings on the issuers. This is because the section 15 bonds do not benefit from any unused notches of support, and any change to the ratings on the issuers would affect the ratings on the section 15 bonds.

#### RELATED CRITERIA AND RESEARCH

##### Related Criteria

- Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Covered Bonds Criteria, Dec. 9, 2014
- Group Rating Methodology, Nov. 19, 2013
- Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Sept. 13, 2013
- Methodology: Credit Stability Criteria, May 3, 2010

##### Related Research

- Global Covered Bond Characteristics And Rating Summary Q3 2015, Nov. 5, 2015
- Ratings On Danish Section 15 Bonds Placed On CreditWatch Negative Following Similar Bank Rating Actions, June 16, 2015

*Ratings Raised On Danish Section 15 Bonds From Six Capital Centers Following Clarification On Bank Resolution*

- Various Rating Actions On Danish Banks On EU Bank Recovery And Resolution Directive To Be Implemented In Denmark, May 12, 2015
- Banking Industry Country Risk Assessment: Denmark, Dec. 10, 2014
- Denmark's Section 15 Bond Ratings Remain Exposed To Market Uncertainties, Nov. 17, 2014

RATINGS LIST

Program/Rating	To	From
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Ratings Raised And Removed From CreditWatch Negative  
Danish Section 15 Bonds

Nykredit Realkredit A/S

Capital Center D	AA-/Negative	A+/Watch Neg
Capital Center E	AA-/Negative	A+/Watch Neg
Capital Center H	AA-/Negative	A+/Watch Neg

DLR Kredit A/S

Capital Center B	A/Stable	BBB+/Watch Neg
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Ratings Raised

Realkredit Danmark A/S

Capital Center S	AA-/Stable	A/Negative
Capital Center T	AA-/Stable	A/Negative

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