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Ratings Affirmed On Realkredit Danmark's Capital Center S Mortgage Covered Bonds Following Review; Outlook Stable

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OVERVIEW

- We have reviewed the performance of Realkredit Danmark's Capital Center S Danish mortgage covered bond program, which is backed by residential and commercial loans.
- Following our review, we have affirmed our long-term 'AAA' ratings on the capital center and all series of "særligt dækkede realkreditobligationer" covered bonds issued under it, because the level of overcollateralization exceeds the credit enhancement required to maintain the ratings.
- At the same time, we have affirmed our 'A-1+' short-term ratings on the capital center and the related issuances.
- The stable outlook on our ratings reflects three unused notches of collateral support.
- These ratings are based on our criteria for rating Danish covered bonds, which are currently under review.

LONDON (Standard & Poor's) Feb. 10, 2016--Standard & Poor's Ratings Services today affirmed its credit ratings on Realkredit Danmark A/S' Capital Center S mortgage covered bond program and related issuances of "særligt dækkede realkreditobligationer" (SDROs). At the same time, we have affirmed our 'A-1+' short-term ratings on the capital center and related issuances. The outlook on the ratings is stable.

Today's affirmations follow our review of the issuer's financial information as of Sept. 30, 2015. We have applied our revised criteria for commercial real estate assets in covered bonds (see "Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds," published on March 31, 2015).

Under our covered bonds criteria, we organize the analytical process for rating covered bonds into four key stages:

- Performing an initial analysis of issuer-specific factors--legal and regulatory risks and operational and administrative risks--which mainly assess whether a rating on the covered bond may be higher than the rating on the issuer.
- Assessing the starting point for the rating analysis, based on the applicable resolution regimes, to determine the reference rating level (RRL).
- Determining the maximum achievable covered bond rating from an analysis of jurisdictional and cover pool-specific factors.
- Combining the results of the above and incorporating any additional factors, such as counterparty risk and country risk, to assign the final covered bond rating (see "Covered Bonds Criteria," published on Dec. 9, 2014).

After assessing the RRL, to determine a maximum achievable covered bond rating we analyze jurisdictional and collateral support. Our assessment of the expected jurisdictional support for mortgage covered bond programs in Denmark is very strong (see "Assessments For Jurisdictional Support According To Our Covered Bonds Criteria," published on Dec. 22, 2015). Under our covered bonds criteria, the uplift from the RRL can be up to three notches when the jurisdictional support is assessed as very strong. Under our analysis of jurisdictional support, we determine a jurisdiction-supported rating level (JRL), which is our assessment of the creditworthiness of a covered bond program once we have considered the level of jurisdictional support, but before giving credit to the amount of collateral.

Following the assessment of the RRL and JRL, we analyze the credit quality of the cover pool and the availability of liquidity support and committed overcollateralization to determine the maximum collateral uplift.

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

Lastly, the ratings on the capital center and related SDRO issuances are not constrained by legal, operational, or counterparty risks.

The 'AAA' long-term ratings reflect our RRL of 'aa-' and JRL of 'aaa' for the capital center, as well as the coverage of 'AAA' credit risk. 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 issuer credit rating on Danske Bank.

The 'A-1+' short-term ratings reflect the creditworthiness of the short-term maturity bonds that can be issued, or are outstanding, under this capital center, applying our mapping method set out in our criteria article "Commercial Paper I: Banks," published on March 23, 2004.

The stable outlook on our ratings on the SDROs reflects our view that we would not automatically lower the ratings on those covered bonds if we were to lower our long-term ICR on Danske Bank by three notches or less. We could also lower our rating if the credit enhancement needed to maintain the rating were to exceed the available credit enhancement.

POTENTIAL EFFECTS OF PROPOSED CRITERIA CHANGES

Our ratings are 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 of 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

- Methodology: Credit Stability Criteria, May 3, 2010
- Understanding Standard & Poor's Rating Definitions, June 3, 2009
- Update To The Cash Flow Criteria For European RMBS Transactions, Jan. 6, 2009
- Commercial Paper I: Banks, March 23, 2004
- Cash Flow Criteria for European RMBS Transactions, Nov. 20, 2003

Related Research

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