

# Realkredit Danmark A/S – Capital Centres S and T

## Mortgage Covered Bonds

### Update

#### Ratings

Realkredit CC S Mortgage Covered Bonds	AAA/Stable
Realkredit CC T Mortgage Covered Bonds	AA+/Stable

#### CC S: Key Data Dec 2014

Asset type	Residential and commercial mortgage loans
Cover assets (DKKbn)	226
Covered bonds (DKKbn)	226
Reserve (OC) (DKKbn)	23

#### CC S: Rating Rationale

Issuer Default Rating (IDR)	A
D-Cap	3 (moderate high risk)
Rating on a probability of default basis	AA
Covered Bonds Rating	AAA
'AAA' Breakeven OC (%)	8.0
Lowest level of OC over the last 12 months (%)	10.5

#### CC T: Key Data Dec 2014

Asset type	Residential and commercial mortgage loans
Cover assets (DKKbn)	431
Covered bonds (DKKbn)	431
Reserve (OC) (DKKbn)	48

#### CC T: Rating Rationale

Issuer Default Rating (IDR)	A
D-Cap	2 (high risk)
Rating on a probability of default basis	AA-
Covered Bonds Rating	AA+
'AAA' Breakeven OC (%)	8.0
Lowest level of OC over the last 12 months (%)	11.3

#### Key Rating Drivers

**Stable Outlook Unchanged:** The 'AAA' Capital Centre (CC) S and 'AA+' CC T covered bond ratings are driven by Realkredit Danmark A/S's (Realkredit, A/Stable/F1, Viability rating: a) Long-Term Issuer Default Rating (IDR) and a Discontinuity Cap of 3 (moderate high risk) and 2 (high risk) respectively.

It is also based on the overcollateralisation (OC) in the past 12 months for both CC S and CC T, which gives greater comfort than the breakeven OC for the 'AAA' rating for CC S and 'AA+' rating for CC T (both at 8%). The Stable Outlook is mainly driven by the Stable Outlook on Realkredit's IDR.

**No Rating Cushion:** The ratings would be vulnerable to a downgrade if any of the following occurred: (i) Realkredit's IDR was downgraded by one notch or more; or (ii) the respective D-Caps fell by one category or more; or (iii) the OC that Fitch relies upon fell below 8%.

**Unchanged D-Cap:** The D-Caps are driven by the liquidity gap and systemic risk components, which are the weakest components for the CCs, both of which are not fully protected against refinancing risk. The risk is higher in CC T, as it solely contains covered bonds without maturity matching assets. However, it is reducing over time after the change in legislation in March 2014 to include a mandatory maturity extension for bonds secured by mortgage loans with longer maturities than bonds. This provision only applies to bonds issued after March 2014.

**Credit Risk Drives Breakeven OC:** The credit risk of the pool is 9.5% at 'AAA' for CC S and 11.5% at 'AA+' for CC T. The excess margins in both capital centres have a positive impact on the breakeven OC for the ratings. Fitch does not model a fire sale of the assets in its cash flow analysis, but instead considers the possibility of bond refinancing post insolvency. However, in the recovery rate analysis, it is assumed that the cover pool would be sold below its par value.

**No IDR Uplift:** The covered bonds are not eligible for any IDR uplift as, according to the European Bank Recovery and Resolution Directive (BRRD), covered bonds from specialised mortgage institutions that do not take deposits could bear losses in a resolution.

#### Programme Highlights

**Lower Risk in CC S:** CC S contains 64% residential mortgage loans and 36% commercial loans and it has decreased to DKK226bn from 234bn last year. CC T contains 55% residential loans and 45% commercial loans and it has increased to DKK431bn from DKK385bn last year. As at 4Q14, both pools contain a higher proportion of multifamily loans compared with 4Q13.

**Decreased Breakeven OC:** The breakeven OC for the 'AAA' and 'AA+' ratings of CC S and T is down to 8% from 10.5% and 11.0%, respectively. This is due to a lower proportion of assets with short refinancing periods. Fitch cut its assumption on the minimum probability of default applied to commercial assets to 0.75% from 1% to reflect good performance. A large proportion of the portfolio loans are multifamily and cooperative housing, whose performance has been stronger than assets assessed under the SME CLO criteria to which the 1% is usually applied.

**Natural Hedge:** The cover assets and covered bonds are mostly denominated in Danish krone. CC S has some exposures in euro and CC T in Swedish krona, Norwegian krone and euro. There are no swaps as there is a natural hedge between the assets and covered bonds.

#### Related Research

[Realkredit Danmark A/S \(December 2014\)](#)

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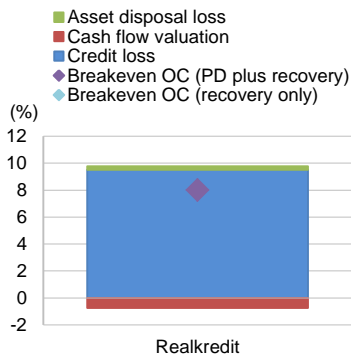
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Figure 2  
Counterparties

Issuer	Realkredit
Originator	Realkredit
Servicer	Realkredit
Collection accounts	Danske Bank, Nordea and Jyske
Issuer account	Danish Central Bank, Danske Bank
Swap providers	None

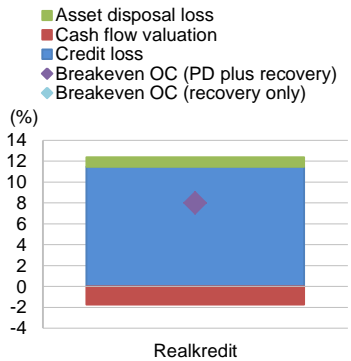
Source: Realkredit

Figure 3  
CC S  
Breakeven OC Components



Source: Fitch

Figure 5  
CC T  
Breakeven OC Components

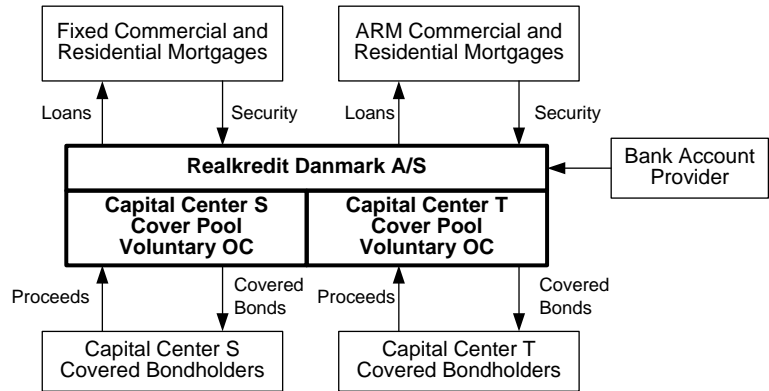


Source: Fitch

Related Criteria

- Covered Bond Rating Criteria (August 2014)
- Counterparty Criteria for Structured Finance and Covered Bonds (May 2014)
- Counterparty Criteria for Structured Finance and Covered Bonds
- Derivative Addendum (May 2014)
- Covered Bonds Rating Criteria – Mortgage Liquidity & Refinance Stress Addendum (February 2015)
- EMEA RMBS Master Rating Criteria (May 2014)
- EMEA Residential Mortgage Loss Criteria (May 2014)
- Criteria Addendum: Denmark (December 2014)
- Criteria for Rating Granular Corporate Balance-Sheet Securitizations (SME CLOs) (March 2015)
- Criteria for Sovereign Risk in Developed Markets for Structured Finance and Covered Bonds (February 2015)
- Criteria for Interest Rate Stresses in Structured Finance Transactions and Covered Bonds (December 2014)

Figure 1  
Structure Diagram



Source: Fitch

Figure 4  
Discontinuity Analysis

Rating level	CC S	CC T
Asset segregation	Very low	Very low
Liquidity gap and systemic risk	Moderate high	High
Systemic alternative management	Low	Low
Cover pool-specific alternative management	Moderate	Moderate
Privileged derivatives	Very low	Very low

Source: Fitch

Figure 6  
Fitch Default Model Output (%)

Rating level	WAFF	WARR	Expected loss
<b>CC S</b>			
'AAA'	8.4	52.1	4.0
'AA+'	7.5	54.3	3.4
'AA'	6.6	56.6	2.9
'B'	1.4	72.3	0.4
<b>CC T</b>			
'AA+'	13.3	63.6	4.8
'AA'	11.8	66.1	4.0
'AA-'	10.9	67.7	3.5
'B'	2.5	83.3	0.4

WAFF = weighted average frequency of foreclosure

WARR = weighted average recovery rate

Source: Fitch

Figure 7  
Portfolio Credit Model Output (%)

Rating level	RDR	RRR	Expected loss
<b>CC S</b>			
'AAA'	34.8	50.9	17.1
'AA+'	31.4	56.0	13.8
'AA'	27.3	57.7	11.5
'B'	8.1	80.3	1.6
<b>CC T</b>			
'AA+'	34.6	51.1	16.9
'AA'	31.0	54.2	14.2
'AA-'	27.4	56.2	12.0
'B'	11.6	80.7	2.2

RDR = Rating default rate

RRR = Rating recovery rate

Source: Fitch

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