

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

## Mortgage Covered Bonds

Capital centre	S	T
Covered Bonds Rating/Outlook	AAA/Stable	AA+/Stable
Issuer Default Rating/Outlook	A/Stable	
Cover assets (DKKbn)	280	489
Covered Bonds (DKKbn)	262	456
Breakeven OC (%)	3.5	6.0
Credit loss (%)	3.7	6.5
ALM loss (%)	-0.4	-0.6
Nominal OC (%) <sup>a</sup>	7.0	7.2
OC Fitch considers in its analysis (%)	6.8	6.6
Basis of OC relied upon	Min last 12 months	Min last 12 months
Covered bonds maturity type	Pass-through (99%) Hard-bullet (<1%)	Soft-bullet (97%) Hard-bullet (<3%)

<sup>a</sup>Data as of 3Q19. OC – Overcollateralisation  
Source: Fitch Ratings

### Key Rating Drivers

**Three- and Four-Notch Downgrade Buffers:** The 'AAA'/Stable and 'AA+'/Stable ratings of Realkredit Danmark A/S's (A/Stable/F1) mortgage covered bonds issued out of Capital Centre (CC) S and T are based on the Long-Term Issuer Default Rating (IDR) of 'A' and eight notches of various uplifts above the IDR granted to the programmes. This provides buffers of three notches for CC S and four notches for CC T against an IDR downgrade to maintain the ratings.

**Credit Loss Drives OC:** The driver of the breakeven OC for both capital centres is the credit loss, modelled at 3.7% for CC S and 6.5% for CC T. The higher credit loss for CC T's cover pool is due to the larger share of adjustable rate mortgages (ARM) and commercial loans.

**Minimal Asset Liability Mismatches:** The balance principle of Danish mortgage covered bonds ensures a close connection between the cash flow received from the borrowers and the cash flow due to the bondholders, minimizing interest rate, FX and liquidity risks. This is achieved by issuing a bond or a portfolio of bonds with terms matching the characteristics of the loans when loans are granted.

**CC T's Rating Constrained by OC:** Both programmes are eligible for two notches of recovery uplift, subject to OC covering the credit losses in the target rating scenario. CC T's bonds rating is constrained by the OC relied on of 6.6%, as it is below the 'AAA' breakeven OC of 7%.

**Stable PCU for both Capital Centres:** The six-notch payment continuity uplift (PCU) for CC S reflects the liquidity protection in place for at least 12 months, as 99% of the outstanding bonds have a pass-through amortisation profile. The six-notch PCU for CC T reflects the extendible maturity feature of the bonds issued since 2014 (97%) and liquidity protection in the form of eligible liquid assets for the remaining hard-bullet bonds. At least three months of interest payment are covered by government bonds held as liquid assets.

### Rating Sensitivity to IDR Downgrade



Source: Fitch Ratings

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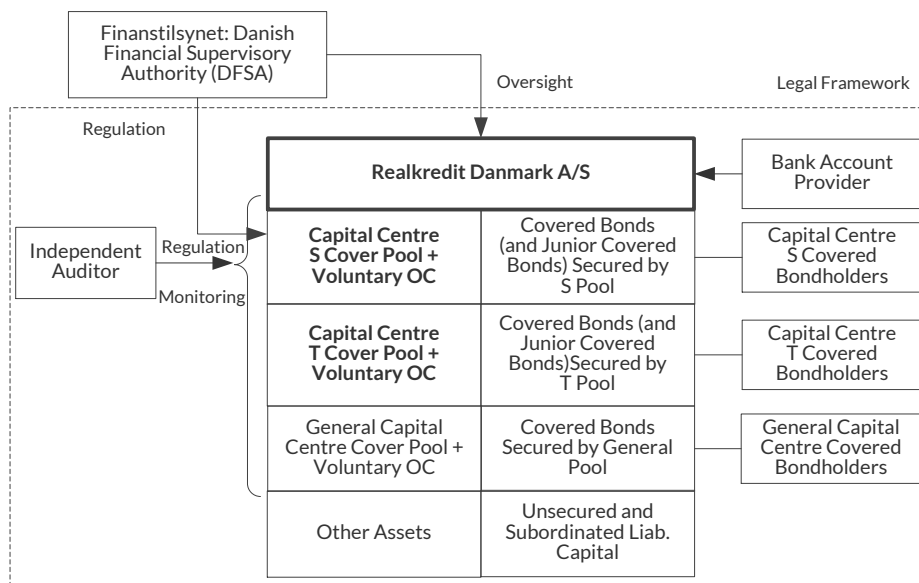
### Programme Highlights

**Lower 'AA+' Breakeven OC for CC T:** The 'AA+' breakeven OC for CC T decreased by 50 basis points to 6.0%, reflecting stable portfolio composition in the share of residential and commercial assets and good residential asset performance. Higher weighted average life of the assets increased the cumulated excess spread in Fitch's cash flow analysis, resulting in a reduction of the ALM loss component of the breakeven OC.

**Mixed Asset Cover Pools:** CC S comprises 69% residential assets and 31% commercial assets, while the respective figures for CC T are 56% and 44%. Commercial loans within Realkredit cover pools are SME loans in such sectors as retail, real estate and agriculture.

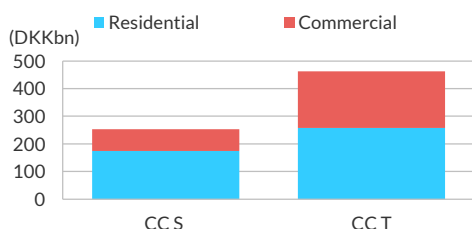
**Collateral Characteristics Drive Credit Loss:** A key difference between the capital centres is the interest-rate type distribution of the collateral loans. CC S contains predominantly fixed-rate assets for the life of the loan, while ARM and other variable rate assets are refinanced through CC T.

### Programme Structure Diagram



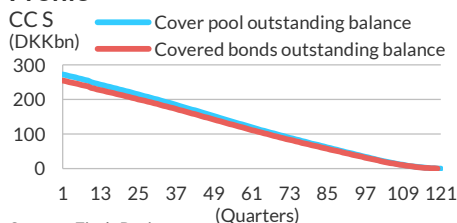
Source: Fitch Ratings

### Distribution by Asset Type



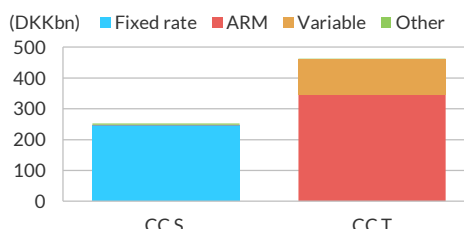
Source: Fitch Ratings, RD Denmark

### Asst and Liabilities Amortisation Profile

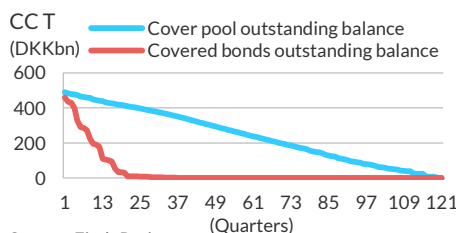


Source: Fitch Ratings

### Distribution by Interest Rate Type

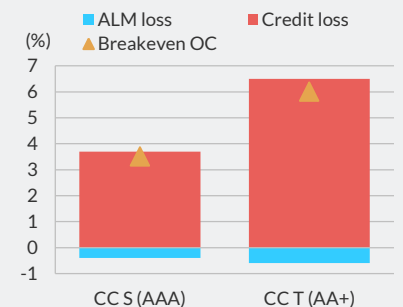


Source: Fitch Ratings, RD Denmark



Source: Fitch Ratings

### Breakeven OC Breakdown



Source: Fitch Ratings

### Fitch Expected Loss Rates (LR) (%)

	Residential assets LR	Commercial assets LR	OC credit loss component <sup>a</sup>
CC S (AAA)	1.6	8.4	3.7
CC T (AA+)	2.0	12.1	6.5

<sup>a</sup> Takes into account liquid assets held for OC purposes  
Source: Fitch Ratings

### Applicable Criteria

- [Covered Bonds Rating Criteria \(July 2019\)](#)
- [Originator Specific Residential Mortgage Analysis Rating Criteria \(November 2019\)](#)
- [European RMBS Rating Criteria \(October 2019\)](#)

### Related Research

- [Global Housing and Mortgage Outlook - 2020 \(December 2019\)](#)
- [Unique Mortgage Market Features - Denmark \(July 2019\)](#)
- [Fitch Ratings 2020 Outlook: Global Covered Bonds \(November 2019\)](#)

### ESG Relevance Scores

- [Realkredit Danmark A/S, Mortgage SDRO \(Capital Centre S\) ESG Navigator \(October 2019\)](#)
- [Realkredit Danmark A/S, Mortgage SDRO \(Capital Centre T\) ESG Navigator \(January 2020\)](#)
- [Introducing ESG Relevance Scores for Structured Finance and Covered Bonds \(October 2019\)](#)

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