

## RATING ACTION COMMENTARY

# Fitch Affirms Realkredit Danmark's Covered Bonds at 'AAA'; Withdraws Ratings

Tue 10 Dec, 2024 - 4:13 PM ET

Fitch Ratings - Frankfurt am Main - 10 Dec 2024: Fitch Ratings has affirmed Realkredit Danmark A/S's (A+/Stable/F1) covered bonds issued under Capital Centres T and S programmes at 'AAA' with Stable Outlooks and, subsequently, withdrawn the ratings.

Fitch has chosen to withdraw the ratings of the covered bonds for commercial reasons and will no longer provide ratings or analytical coverage of them.

## KEY RATING DRIVERS

**Four Notches Above IDR:** Both programmes' ratings are based on Realkredit Danmark's Long-Term Issuer Default Rating (IDR) of 'A+' and the various uplifts above the IDR granted to the programmes. The ratings also consider the over-collateralisation (OC) protection for covered bond holders.

The Stable Outlook on both programmes is driven by that on Realkredit Danmark's IDR and reflects a six-notch cushion against an IDR downgrade. The covered bond programmes are rated four notches above the bank's IDR. This is out of a maximum achievable uplift of 10 notches, consisting of a resolution uplift of zero notches, a payment continuity uplift (PCU) of eight notches and a recovery uplift of two notches.

**No Resolution Uplift:** Fitch does not assign a resolution uplift to Realkredit Danmark's covered bonds as the issuer is a specialised mortgage lender that is not operationally integrated into a parent bank, and the bail-in tool does not apply to specialised mortgage banks in Denmark.

**Eight-notch PCU:** The eight-notch PCU for both programmes reflects their pass-through amortisation profiles, driven by the matching principle of assets and liabilities, a requirement for specialised mortgage banks in Denmark. CC S outstanding bonds have an entirely pass-through amortisation profile and more than 99% of the CC T bonds have extendible maturity. The remaining CC T bonds are hard-bullet and their

redemptions are covered by liquid assets for at least 12 months. The eight notches also reflect interest payment protection of at least three months for each programme.

**Two-notch Recovery Uplift:** Both programmes are eligible for a recovery uplift of two notches. The combination of a 'AA+' timely payment rating level and a one-notch recovery uplift results in the lowest break-even OC supporting the 'AAA' ratings.

**Relied Upon OC:** For the CC S cover pool, which consists of Danish fixed-rate residential and commercial mortgages, Fitch gives credit to 6.5% OC. This is the lowest nominal OC observed in the past 12 months and provides more protection than the 3.5% 'AAA' break-even OC for the programme. For the CC T cover pool, which consists of Danish floating- and adjustable-rate residential and commercial mortgages, Fitch gives credit to 6.7% OC. This is also the lowest nominal OC observed in the past 12 months and provides more protection than the 4.5% 'AAA' break-even OC for the programme.

**'AAA' Break-Even OC:** Fitch has carried forward its asset-and-cash flow model results in accordance with its Covered Bond Rating Criteria, since the models were run less than 12 months ago for the asset modelling and less than six months ago for the cash flow modelling and there have been no significant changes in the meantime. The break-even OC is driven by the credit risk of each pool, as Fitch does not model a sale of assets in its cash flow analysis, but considers the possibility of bond refinancing post insolvency or models the pass-through or maturity extension of bonds with these features.

**Break-Even OC Components:** The 'AA+' credit loss component of the break-even OC is 3.9% for CC S and 5.2% for CC T. The assets/liabilities mismatch (ALM) loss component is -0.3% for CC S and -0.8% for CC T, reflecting the excess spread in the programmes from the administrative margins charged to borrowers.

## **RATING SENSITIVITIES**

Not relevant due to the withdrawal.

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS**

The covered bonds' rating is driven by the bank's Long-Term IDR.

## **ESG CONSIDERATIONS**

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. Following the rating withdrawal, Fitch will no longer provide ESG scores for the issuer. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

## RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Realkredit Danmark A/S		
senior secured, Mortgage Covered Bonds, S	LT AAA Rating Outlook Stable Affirmed	AAA Rating Outlook Stable
senior secured, Mortgage Covered Bonds, S	LT WD Withdrawn	
senior secured, Mortgage Covered Bonds, T	LT AAA Rating Outlook Stable Affirmed	AAA Rating Outlook Stable
senior secured, Mortgage Covered Bonds, T	LT WD Withdrawn	

[VIEW ADDITIONAL RATING DETAILS](#)

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**APPLICABLE CRITERIA**

[Structured Finance and Covered Bonds Counterparty Rating Criteria \(pub. 28 Nov 2023\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum \(pub. 28 Nov 2023\)](#)

[SME Balance Sheet Securitisation Rating Criteria \(pub. 19 Feb 2024\) \(including rating assumption sensitivity\)](#)

[Bank Rating Criteria \(pub. 15 Mar 2024\) \(including rating assumption sensitivity\)](#)

[Structured Finance and Covered Bonds Country Risk Rating Criteria \(pub. 20 Jun 2024\)](#)

## APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Covered Bonds Cash Flow Model, v2.2.2 (1)

## ADDITIONAL DISCLOSURES

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Realkredit Danmark A/S

EU Issued, UK Endorsed

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