

NON-RATING ACTION COMMENTARY

Realkredit Danmark's Covered Bonds Benefit from Increased Buffer

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Fitch Ratings-Frankfurt am Main-04 June 2024: The Danish mortgage covered bonds issued by Realkredit Danmark A/S from capital centres (CC) S and T are rated 'AAA' and benefit from a six-notch buffer against an Issuer Default Rating (IDR) downgrade. The buffer increased from four notches following an update of Fitch's covered bonds rating criteria (see [Fitch Ratings Raises the PCU of Realkredit Danmark's S and T Covered Bonds to Eight Notches from Six](#), published 19 April 2024).

The 'AAA' ratings of both programmes are based on Realkredit Danmark's Long-Term IDR of 'A+', the 10 notches of uplift granted (eight notches of PCU and two notches of recovery uplift) and the overcollateralisation (OC) protection for covered bondholders. In its analysis Fitch relies on the lowest observed OC level over the past 12 months, which is 6.2% for CC S and 6.5% for CC T. In both cases the relied upon OC is higher than their respective 'AAA' break-even OC of 3% and 4%.

One key differentiation between both programmes is the interest-rate characteristics of the cover assets: CC S contains fixed-rate assets for the life of the loans, whereas CC T primarily comprises floating-rate and adjustable-rate mortgages that reset periodically throughout the duration of the loans. Due to higher interest rates, the assets' volume in CC S decreased, in contrast to CC T's growth, indicating a borrower shift towards variable-rate mortgages to avoid committing to high fixed rates for longer tenors.

Both programmes feature a pass-through amortisation structure, driven by the matching principle of assets and liabilities, a requirement for specialised mortgage banks in Denmark. The cover pools have residential mortgage loans, commercial mortgage loans and substitute liquid assets. As of 1Q24, CC S comprises residential (74.4%), commercial (18.7%) and substitute assets (6.9%); the respective figures for CC T are

65.2%, 28.4% and 6.4%.

More detailed information on the two covered bond programmes is available in the report *Realkredit Danmark's Capital Centres S & T Covered Bond Programmes – Peer Review* at www.fitchratings.com or by clicking in the link above.

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