Realkredit Danmark A/S

Mortgage Covered Bonds

The AAA rating with a Stable Outlook assigned to the mortgage covered bonds (Særligt dækkede realkreditobligationer - SDRO) issued out of Capital Centre S and T (CC S and CC T) by Realkredit Danmark A/S (RKD) are based on the bank's issuer rating (A+ / Stable) enhanced by six notches of governance-support factors. The six notches reflect the strong governance of Denmark's legal covered bond and their resolution framework and provide a floor for the covered bond rating against a deterioration in cover pool credit quality.

The covered bond programme*

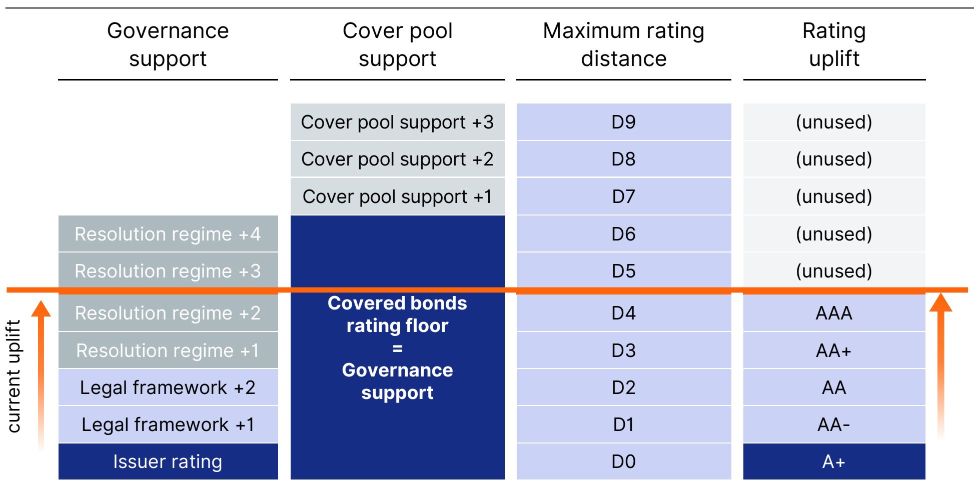
Cut-off date	Cover pool	Cover asset type	Covered bonds	Rating/Outlook
31 Mar 2024	DKK 288.5bn	Residential/commercial mortgages CC S	DKK 268.7bn	AAA/Stable
31 Mar 2024	DKK 479.5bn	Residential/commercial mortgages CC T	DKK 449.5bn	AAA/Stable

*Denoted in DKK, the base currency of Realkredit Danmark covered bonds

As of March 2024, RKD's mortgage covered bonds issued out of CC S and CC T are secured by mortgage loans. Of the mortgage loans, 74.4% and 65.3% are exposed to residential, 18.7% and 28.4% to commercial properties including for agriculture, and 6.9% and 6.3% are substitute assets[1] for CC S and CC T, respectively. The properties securing the loans are mainly spread across Denmark.

The Danish match-funding principle of the covered bond programmes minimises foreign currency, interest rates and asset-liability mismatches. Both capital centres are primarily denominated in Danish krone, with minimal exposure to foreign currency. The programmes are exposed to credit risk, however.

Figure 1: Covered bond rating building blocks



Covered bond rating
AAA

Outlook
Stable

Rating action
Affirmation

Last rating action
24 May 2024

Issuer rating
A+

Outlook
Stable

Last rating action
18 June 2024

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Related research

Scope affirms Realkredit Danmark's issuer rating at A+/Stable

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[1] In the remainder of the report, we show the composition as per the date of analysis. Recent pool stratifications can be found in our quarterly performance reports.

Stable Outlook

The Stable Outlook on the SDROs reflects the issuer's rating and Stable Outlook, in addition to five-notch rating buffers from governance and cover pool support against an issuer downgrade. Consequently, the covered bond rating may only be downgraded upon: i) an issuer rating downgrade by more than five notches; ii) a deterioration in Scope's view on credit-positive governance support factors relevant to the issuer and Danish covered bonds in general and on the interplay between complexity and transparency, and/or iii) an inability by the cover pool to provide an additional uplift in case of an issuer rating downgrade by more than two notches.

Changes since last performance update

On 18 June 2024, we affirmed RKD's issuer rating at A+ with a Stable outlook. Rating and Outlook of RKD are fully aligned with those of its parent, Danske Bank A/S (Danske Bank). Any change in the parent's issuer rating is likely to lead to a concurrent change for RKD as the bank's rating is aligned with that of its parent.

Since our last analysis one year ago, the Danish property price decline abated and is back on a more sustainable growth path. The cover pool's credit quality remains high even though the average loan-to-value (LTV) slightly increased.

RKD's SDROs continue to benefit from strong credit enhancement supported by low LTVs and healthy credit metrics thanks to the predominant exposure to borrowers with mortgage loans secured by domestic residential and commercial and residential properties.

Rating drivers and mitigants

Positive rating drivers	Negative rating drivers and mitigants
• Strong legal covered bond framework • Strong resolution regime and systemic importance	

Upside rating-change drivers	Downside rating-change drivers
• No upside as rating is highest achievable • Additional issuer downgrade cushion possible from an issuer rating upgrade	• Issuer downgrade by more than five notches • Inability of cover pool to provide additional uplift in case of issuer rating downgrade by at least three notches • Inability of cover pool to provide an additional uplift in case governance analysis deteriorates by at least two notches

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The issuer

RKD's ratings are aligned with those of its parent, Danske Bank, as Scope considers RKD to be fully supported by Danske Bank and therefore applies its top-down approach to the analysis. In determining the reliability and stability of the parent company's support for the subsidiaries, Scope considers the extent to which the subsidiary is aligned with the group's strategic objectives, its integration into the group's operations and the fact that the absence of support would be highly detrimental to Danske Bank group.

RKD is a wholly owned subsidiary of Danske Bank and acts as the group's specialised covered bond issuer in Denmark and originates most its mortgage loans within Danske Bank. While RKD has its own governance structure, it is closely integrated into the Danske Bank group through a common strategy and risk management principles. Mortgage loans are funded by covered bonds, which makes the bank an important funding vehicle for the group.

Any change in the parent's issuer rating is likely to lead to a concurrent change for RKD as the bank's rating is aligned with that of its parent. A weakening of the strategic importance of RKD as a core subsidiary for Danske Bank, resulting in a lower likelihood of support, could lead to in a rating downgrade.

RKD's standalone financial profile continues to be supported by its high asset quality, strong capitalisation and position as a major Danish covered bond issuer in Denmark. Scope considers RKD's proven pass-through funding model to be a key credit strength. However, RKD's monoline business model is focused on mortgage lending and its revenue streams are not diversified. Profitability is also under pressure due to lower lending activity, somewhat offset by higher interest margins. Return on equity remains solid, supported by good cost efficiency and low risk costs, but is expected to be challenged by increasing regulatory requirements and rising provisioning in the coming years.

RKD is dependent on wholesale funding. However, the Danish covered bond market is well established and liquid with a wide range of domestic and foreign investors.

For further information on the parent or the issuer see the full rating report on Danske Bank or RKD.

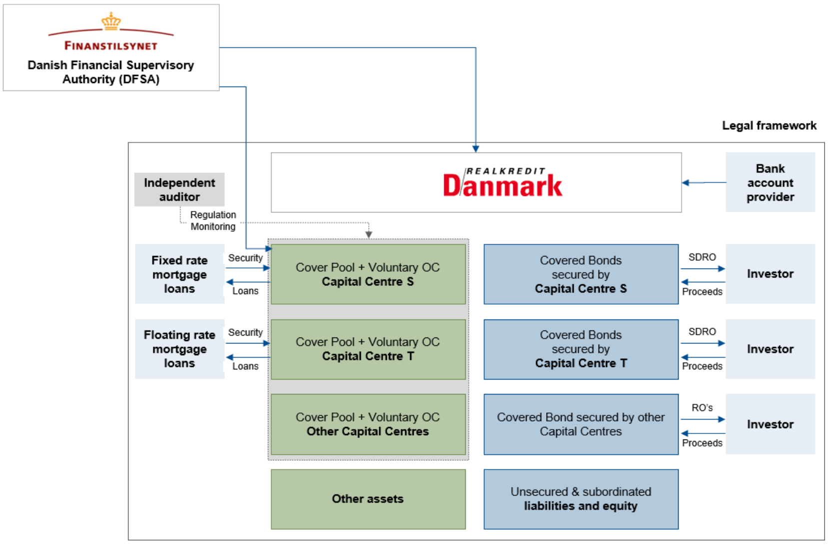
Programme structure

As specialized mortgage bank, Realkredit issues SDRO

RKD, a specialized mortgage bank within the Danske Bank Group, originates the majority of its domestic mortgage loans. SDROs, issued exclusively by mortgage banks like RKD, are Danish covered bonds labelled as "European Covered Bonds (premium)." These bonds are used to refinance loans and are regulated by the Danish Mortgage Act, overseen by Denmark's financial supervisor, Finanstilsynet. SDROs issued from capital centres such as CC S, CC T, or others do not cross-collateralise. In the event of issuer insolvency, they are backed solely by the cover pool of their respective capital centre.

The Danish legal basis for covered bonds was amended in 2021 to transpose the Covered Bonds Directive (CBD, comprising EU directive 2019/2162 and EU Regulation 2019/2160) and the changes were applied as of 8 July 2022. All SDROs issued before 8 July 2022 have been grandfathered and are both CBD and CRR (Article 129) compliant.

Figure 2: Issuance structure



Source: Scope Ratings GmbH

Governance support analysis

Governance credit support is the key rating driver for RKD's SRDOs, providing an uplift of up to six notches. This uplift is based on our credit-positive view on i) the legal framework for mortgage covered bonds in Denmark; ii) the Danish resolution regime; and iii) the systemic relevance of covered bonds in Denmark, including those of RKD.

Six notches from legal framework and resolution regime assessment

Legal framework analysis

Two notches of credit differentiation result from our legal framework analysis. This is driven by the benefits afforded by Denmark's covered bond framework, which we consider one of Europe's strongest, particularly due to the strict 'specific balance principle' applicable to SDROs.

Two notches reflecting strong legal framework addressing all credit relevant areas ...

The legal framework relevant to RKD's SDROs is the Danish Financial Business Act (Lov om finansiel virksomhed). The act entered into force on 8 July 2022 adopting the necessary changes of the harmonized EU covered bond directive. Changes to the Danish framework to apply the European covered bond directive were credit neutral to the SDROs issued.

Segregation of cover pool upon insolvency

Covered bonds benefit from a preferential claim on all assets in the respective cover pool, also called a register. The priority claim has a legal and binding effect with the registration of the cover assets into a register. The issuer can maintain several registers. A register contains all assets, guarantees received and derivative contracts. SDRO registers are managed by the issuer (instead of an independent trustee) and supervised by the DFSA.

In case of an issuer's insolvency, the cover pool – which comprises all registered eligible assets and related covered bonds – is separated from the issuer's general insolvency estate and managed with the aim of facilitating full and timely payment.

Ability to continue payments after issuer insolvency

In the event of bankruptcy, the DFSA decides whether a respective register becomes a separate estate subject to special administration (as opposed to a general insolvency administration). The main aims are to ensure investors receive timely payments and borrowers' rights are not impaired.

Insolvencies do not trigger an acceleration of covered bonds, unlike other debt categories. Derivatives remain in force throughout an issuer's bankruptcy, liquidation or resolution if they are registered in the cover pool and the derivatives contract stipulates that the suspension of payments or an issuer's bankruptcy does not constitute an event of default.

SDROs are managed according to the "specific balance principle". It provides for bonds to be issued at the same terms as the underlying mortgage loans. This principle nearly eliminates market and liquidity risk; therefore, SDROs usually do not include derivatives. Each capital centre is supervised independently and must adhere to the applicable regulations separately.

Legislation addresses refinancing risk when a mortgage bank cannot refinance matured bonds on market terms. This regulation applies to covered bonds with loan terms longer than the bond maturity used to fund them, incorporating a soft bullet mechanism controlled by two triggers: a refinancing failure trigger and an interest rate trigger. The refinancing trigger automatically extends bond maturity by twelve months if the issuer fails to refinance maturing bonds through new issuance, contingent on the market event of "no refinancing." The interest rate trigger, applicable to bonds maturing in two years or less, activates if there is a five percent point increase in bond yield over the preceding year, potentially extending maturity by one year.

This risk applies to Capital Centre T, since the loans reset and the interest rate will be changed in accordance with the new relative bonds. Capital Centre S, which only comprises fixed rate loans, is not subject to such risk since the interest rate on the loans is fixed for life and will not reset.

Danish covered bonds must ensure that the first 180 days of liquidity needs are sufficiently covered by highly liquid assets. Soft bullet covered bonds issued after aligning with CBD can be accounted for using their extended maturity rather than their scheduled maturity. However, as with most other European countries, the 180-day requirement is largely ineffective.

Programme enhancements remain available

Enhancements, such as maintained overcollateralisation, asset eligibility standards or liquidity provisions, remain available, valid and enforceable after a resolution event or insolvency. Neither a regulatory action nor an issuer's event of default impacts the ability to manage the covered bonds in the interest of investors. However, the Danish Covered Bond Act does not prohibit the use of set-off against cover pool assets. As such, borrowers can retain a residual right under the relevant local legislation (Denmark) to set off claims vis-à-vis RKD against their outstanding loan amounts. To mitigate this risk, RKD ensures overcollateralisation under CC S and CC T can cover potential claims by borrowers.

Danish covered bonds benefit from a minimum legal overcollateralisation of 2% based on the nominal value of both the cover assets and the covered bonds. This level shall also cover maintenance and management costs to wind down covered bonds.

The cover pool benefits from strong eligibility standards determining the eligibility and limits of certain cover assets. For example, residential mortgage assets only qualify for covered bond funding if their eligible loan share does not exceed 80% of the market value and where the maturity and interest-only period do not exceed 30 and 10 years respectively. For commercial loans, the LTV must not exceed 60%, or 70% if the bank adds collateral. Asset valuations require frequent updates, which can be performed based on statistical measures.

Covered bond oversight

The issuer is responsible for monitoring and managing the cover pool. This involves providing quarterly reporting to the DFSA on registered assets and on asset-liability management. The statement on registered assets must be verified by the bank's external auditor. The DFSA itself supervises banks, provides covered bond licences, issues regulations and monitors compliance with law. The DFSA is legally empowered to take any appropriate measures and conduct inspections. Upon an issuer insolvency, the DFSA will appoint an independent administrator to act in the interest of the covered bond holders.

Resolution regime analysis

RKD's mortgage covered bonds benefit from an additional four-notch uplift that reflects preferential status and exemption from bail-in, the resolvability and likely maintenance of RKD in the hypothetical scenario of regulatory intervention in the bank, and the very high importance of covered bonds in Denmark, where a strong stakeholder group maintains confidence in the bonds' high credit quality. For more information see our related research.

…together with four notches of uplift which reflect the resolution regime and bail-in exemption, reaches to the rating of AAA

Availability and strength of statutory provisions

In Denmark, the DFSA and the Financial Stability Company are responsible for the resolution of banks, the former dealing with going concern entities and the latter with gone concern entities. Denmark transposed the European Bank Resolution and Recovery Directive into Danish legislation in 2015 even though the country is outside the euro area. This gives the Financial Stability Company a wide range of resolution powers.

Generally, the resolution of large Danish banks aims for the recapitalisation and continuation of the whole group to maintain critical functions, usually by means of bail-in. This approach has been shown by the resolution approach taken for two smaller Danish banks. As part of the regulator's toolkit, senior secured debt, which includes covered bonds, are exempt from bail-in. RKD as a subsidiary of Danske Bank benefits from the strength of its parent's sufficiently balanced refinancing and capital structure, we believe bail-in would be used in a hypothetical resolution, which would allow the group to maintain senior secured debt as a going concern. This reflects our view that a regulatory intervention would allow for the continuation of the issuer, including the active management and maintenance of its covered bond programmes.

Systemic importance of issuer

We believe regulators would preserve RKD in case of its hypothetical failure. The Bank is not a global systemically important bank. However, RKD along with its parent are major mortgage lenders and among the largest covered bond issuers worldwide, therefore is considered a systemically important financial institution by the DFSA.

Systemic relevance of covered bonds

Covered bonds have a very high systemic relevance in Denmark and regulators are therefore conscious of the systemic importance of their issuers. The Danish covered bond market is one of world's oldest, with a 229-year history. Its domestic covered bonds account for the largest share of tradeable high-grade debt in the Danish capital markets. At present, seven banks are licensed to issue covered bonds. The Danish covered bond market is also the largest globally, with EUR 463bn of outstanding covered bonds at year-end 2022. On average, total outstanding covered bonds account for more than 124% of Denmark's GDP. Danish banks are the largest investors of Danish covered bonds, followed by international investors and the Danish public pension scheme.

Proactive stakeholder community

Danish covered bonds benefit from a very strong stakeholder community, increasing the likelihood of active support to maintain this product a going concern funding instrument.

Danish covered bond issuers actively collaborate under the umbrella of Finance Denmark and the Association of Danish Mortgage Banks, which includes promoting the product and initiating changes to the domestic (and international) covered bond framework. Investors use Danish covered bonds as a substitute for long-dated Danish-krone government debt. Almost 75% of Danish covered bonds are held domestically, which has supported the ongoing issuance and trading of Denmark's covered bond market throughout the various financial crises; in contrast, other countries' capital markets were suspended or closed. The Danish central bank and the DFSA are also active stakeholders given Danish covered bonds' wide use as collateral for central bank operations as well as a funding instrument.

Cover pool analysis

RKD's covered bond rating for CC S and CC T is governance-supported. Hence, cover pool support is not needed to reach highest ratings. However, cover pool support does provide additional rating stability in case of an issuer downgrade.

Cover pool support provides additional rating stability for the SDROs. Our cash flow analysis shows that if the issuer were downgraded to BBB-, the current nominal overcollateralisation would still support the AAA covered bond rating.

CPC assessment

Our assessment on the interplay between complexity and transparency translates into a CPC category of 'Low'. The assessment on the interplay between complexity and transparency adds three notches to the rating buffer. This combined credit support could allow the covered bond rating to remain at the highest level in the event of a hypothetical issuer downgrade of up to five notches, assuming overcollateralisation does not become a constraining factor.

The CPC category of Low-risk stems from the ongoing availability of detailed, regular, current and forward-looking transparency and reporting on reporting key credit and market risk factors. We took into account information on the issuer's lending products; underwriting, credit and market risk management; and high transparency on its origination and issuance strategy. We also had full access to all relevant counterparty risk information, including details on hedging agreements (if any).

Cover pool composition

As of March 2024, both capital centres are predominantly secured by Danish commercial and residential mortgage loans denominated in Danish krone, only 0.3bps of mortgage loans in Capital Centre S were denominated in euros. For Capital Centre T, 2.3% are denominated in Swedish krona, 0.4% in euros, and 1.2% in Norwegian krone.

Both pools are granular with around 155k mortgage loans for CC S and around 192k for CC T. The top 10 loans only account for 1.0% in CC S and 2.0% in CC T.

The main and most important difference between the two capital centres concerns their interest rates: mortgage loans in CC S have fixed rate for life; the loans in CC T are floating-rate and reset loans (adjustable-rate mortgages), most of which have reset periods of under five years.

The split between residential and commercial loans has remained relatively stable in both capital centres. By total assets, residential mortgage loans account for 75% for CC S and 65% for CC T.

Since our last analysis, assets in CC S have decreased by around DKK 6bn, while CC T's have increased by around DKK 10 bn. The key metric for the mortgage loans has changed since our last review: overall LTV has increased by 3pp to 44.6% for CC S and by 2pp to 49.9% for CC T. The increase in LTVs is mainly driven by revaluations due to stable real estate prices after a significant drop in the unsustainable growth of house prices in Denmark.

The properties securing the loans are mainly spread across Denmark, with highest concentration in capital region (Greater Copenhagen area), 48.7% in CC S and 51.3% in CC T. There are no material changes in geographical distribution since the last analysis.

Cover pool characteristics CC S

Reporting date	Q4 2023	Q1 2023
Balance (DKK bn)	288.8	294.4
Residential	75.2%	75.2%
Commercial	18.7%	18.6%
Substitute	6.1%	6.2%

General information

Reporting date	Q4 2023	Q1 2023
No. of loans	155,214	158,530
Avg. size (DKK k)	1,473	1,742
Top 10 (%)	1.0	1.0
Remaining life (y)	21	22
Seasoning (y)	14	13
WA whole-loan LTV (%)	44.6	41.6

Interest rate type (%)

Reporting date	Q4 2023	Q1 2023
Fixed	99.6	99.5
Floating	0.4	0.5

Repayment type (%)

Reporting date	Q4 2023	Q1 2023
Annuity	66.6	66.9
Interest-only	33.4	33.1

Cover pool characteristics CC T

Reporting date	Q4 2023	Q1 2023
Balance (DKK bn)	484.3	475.6
Residential	65.2%	65.4%
Commercial	28.0%	28.5%
Substitute	6.6%	6.0%

General information

Reporting date	Q4 2023	Q1 2023
No. of loans	192,241	196,517
Avg. size (DKK k)	2,353	2,274
Top 10 (%)	2.0	2.0
Remaining life (y)	21	21
Seasoning (y)	12	12
WA whole-loan LTV (%)	49.9	47.9

Interest rate type (%)

Reporting date	Q4 2023	Q1 2023
Fixed	0.0	0.1
Floating	100.0	99.9

Repayment type (%)

Reporting date	Q4 2023	Q1 2023
Annuity	31.5	32.4
Interest-only	68.5	67.6

Asset risk analysis

Cover pool quality remains strong

The cover pool's credit quality remains strong thanks to the loans with a moderate to low LTV. Our analysis is based on the line-by-line data provided by the issuer.

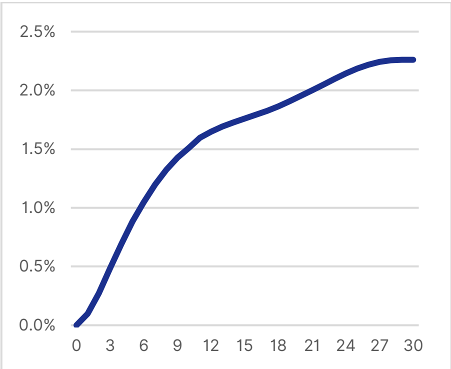
Our projection of default applicable to the mortgage portfolio uses an inverse Gaussian distribution characterised by a measure of mean default probability and a variance of correlation parameter.

We disregard the substitute assets from our asset risk analysis because cover pool support is not a key rating driver. Therefore, we consider only the credit risk (and cash flows) of the primary collateral – the mortgage loans.

Considering the mortgage loan's seasoning and lifetime amortisation, the programmes cumulative term defaults are 2.3% for CC S and 2.5% for CC T.

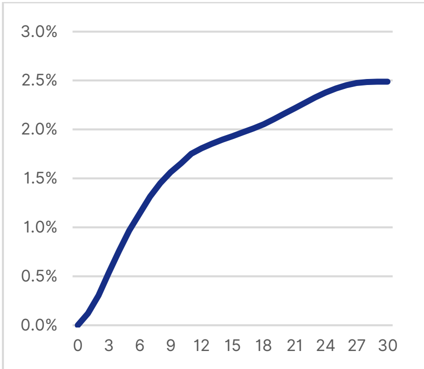
We assume a coefficient of variation of 50% for CC S and 75% CC T for the mortgage assets. Assumptions for CC T incorporate a potential increase in borrower defaults if margins increased by up to 500bp due to a failure to refinance covered bonds. CC S is not exposed to refinancing risk because the loans have a fixed rate for life.

Figure 3: Expected term defaults, cumulative (DP/years) CC S



Source: Scope Ratings, RKD

Figure 4: Expected term defaults, cumulative (DP/years) CC T



Source: Scope Ratings, RKD

Stressed mortgage recovery rates are relatively high and stable at 80.4%, down from 80.8% for CC S and 77.5%, down from 78.6% for CC T assessed a year ago. The decline is driven by slightly higher loan-to-value. Danish house prices have depreciated during the last year. However, the real estate market in Denmark is back to sustainable growth rate trend.

We updated our fire-sale discounts based on data provided by the issuer. The fire-sale discount is applied to properties sold under non-standard market or distressed conditions. The discounts range is between 17% and 40% and depend on the region and the property type. In our recovery analysis we do size for 5.0% of variable costs and DKK 8k of fixed costs.

Base market value decline assumptions remain at 5% reflecting the risk of moderately and locally falling price levels.

Figure 5: Security Value Haircuts (SVH)

Region	Base MVD	Stressed MVD	Firesale discount	Sale costs	Stressed SVH
Denmark-Houses	5%	25%	32%	5%+8k	50%
Denmark-Flats	5%	38%	25%	5%+8k	52.5%

MVD: market value decline

Cash flow risk analysis

The overcollateralisation (OC) supporting the rating has a floor at the legal minimum of 2%. This is because the rating does not rely on cover pool support (highest rating already reached based on governance support) while the governance support uplift assumes covered bonds comply with regulatory criteria.

Supporting overcollateralisation at legal minimum as rating is solely based on governance support

Cover pool support provides additional rating stability for the SDROs. Our cash flow analysis shows that if the issuer were downgraded to BBB-, the current nominal overcollateralisation of 6.5% for CC S and 7.1% for CC T would still support the AAA covered bond rating.

Both capital centres are predominantly denominated in Danish krone with a negligible exposure to foreign currency. Given the match-funding principle of the programmes, foreign currency and interest rates mismatches are minimised.

Asset-liability mismatches CC S

	Assets	Liabilities
DKK (bn)	288.8	271.4
Fixed	99.6%	99.6%
Floating	0.4%	0.4%
WAL (years)*	10.6	10.6

***Scope calculated**

Asset-liability mismatches CC T

	Assets	Liabilities
DKK (bn)	484.3	452.3
Fixed	0.05%	76.6%
Floating	99.95%	23.4%
WAL (years)*	10.7	10.7

***Scope calculated**

Figure 6: Amortisation profile CC S

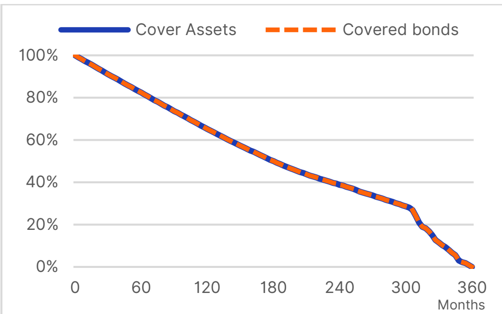
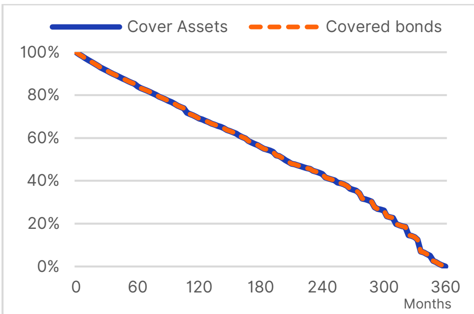


Figure 7: Amortisation profile CC T



Source: Scope Ratings, RKD

CC S is most sensitive to low prepayments (1%) and declining interest rates, whereas CC T's sensitivity extends to low prepayments (1%), decreasing interest rates, and EUR, SEK and NOK depreciation against DKK. This is mainly driven by the non-performing loans which put stress on the programme’s excess spread during their assumed recovery timing (18 months for residential loans and 30 months for commercial loans). We have applied refinancing spread of 150 bp for residential mortgage loans and 300 bp for the commercial mortgage loans. The programmes show no sensitivity to refinancing costs.

The amortisation schedules for assets and liabilities were based on the schedule provided by the issuer. Servicing fees are 30bp for CC S and 33bp for CC T.

We complemented our base case cash flow results by testing the sensitivity to adverse interest rate scenarios, higher refinancing costs, and spread compression. None of these resulted in adjustments to the rating-supporting OC.

Availability of overcollateralisation

RKD's current rating allows us to account for the provided OC. We are not aware of any changes to the programme that would alter its risk profile or reduce available OC to levels that would no longer support the current rating uplift.

Rating-supportive available overcollateralisation fully taken into account

Figure 8: OC development CC S

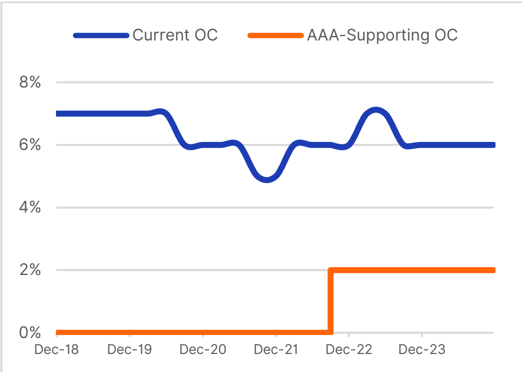
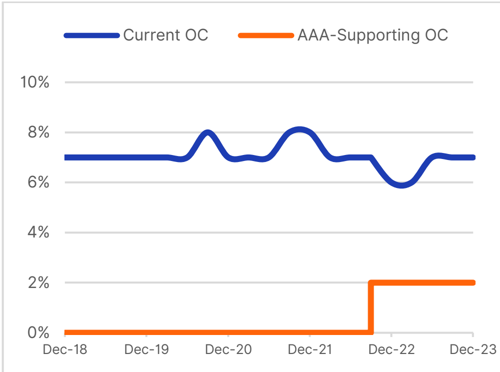


Figure 9: OC development CC T



Source: Scope Ratings, RKD

Other risk considerations

The rated covered bonds have counterparty exposures to the issuer as loan originator, servicer, bank account provider and paying agent. We assess the bank as resolvable and believe that if a regulator were to intervene, the strong alignment of interests between the bank and the covered bond holders would prevent any negative impact.

Counterparty exposure does not limit the rating

Country risk does not constrain the covered bond rating. Denmark's long-term issuer and senior unsecured debt ratings in local- and foreign-currency are AAA. The Outlook is Stable. We have no evidence that transfer risk (e.g. risk of capital controls), convertibility risk (e.g. risk of eurozone exit) and the risk of an institutional meltdown are pertinent risk factors for Denmark.

Country risk is not a rating driver

Governance factors are key for the analysis of the SDROs and therefore for our legal and resolution regime analysis. Our quantitative analysis on RKD's SDRO have not directly included ESG aspects. We acknowledge that DKK 7.4bn of residential and DKK 12.6bn of commercial loans have been funded with floating green bonds in CC T since March 2019. The bank's green bond framework opens the investor base and improves the appeal and liquidity of RKD's SDRO.

Governance factors are key rating drivers

Established green bond framework

Due to data constraints, we could not perform a specific analysis of environmental or social factors, or their impact on the cover assets' probability of default or recovery proceeds. At the same time, we have indirectly included environmental aspects in our analysis as collateral valuations reflect the condition of the collateral.

Sensitivity analysis

RKD's SDRO ratings have a five-notch buffer against an issuer downgrade. Assuming the issuer's willingness to support the highest covered bond rating and maintain the covered bond programmes' risk profile, a five-notch issuer downgrade would increase the rating-supporting OC to 2.25% for CC S and 3.5% for CC T.

Five-notch buffer against an issuer downgrade

The covered bond rating may be downgraded upon: i) an issuer rating downgrade by more than five notches; ii) a deterioration in Scope's view on governance support factors relevant to the issuer and Danish covered bonds in general and on the interplay between complexity and transparency, and/or iii) the inability of the cover pool to provide an additional uplift in case the issuer rating is downgraded by more than two notches.

Summary of covered bond characteristics CC S

Reporting date	2023-12-31	2023-03-30
Issuer name	Realkredit Danmark A/S	
Country	Denmark	
Covered bond name	særligt dækkede realkreditobligationer (SDROs)	
Covered bond legal framework	Danish legal covered bond framework	
Cover pool type	Mortgage loans	
Composition	Residential = 75.2%	Residential = 75.2%
	Commercial = 18.7%	Commercial = 18.6%
	Substitute assets = 6.1%	Substitute assets = 6.2%
Issuer rating	A+/Stable	A+/Stable
Current covered bond rating	AAA/Stable	AAA/Stable
Covered bond maturity type[1]	Hard bullets	Hard bullets
Cover pool currencies	DKK (100%)	DKK (100%)
Covered bond currencies	DKK (100%)	DKK (100%)
Governance support (notches)	6	6
Maximum additional uplift from CPC Cat (notches)	3	3
Maximum achievable covered bond uplift (notches)	9	9
Covered bond rating buffer (notches)	5	5
Cover pool (DKK m)	288,863	294,381
of which substitute assets and deposits (DKK m)	17,508	18,168
Covered bonds (DKK m)	271,355	276,213
Overcollateralisation: current/legal minimum	6.5% / 2%	6.6% / 2%
Overcollateralisation to support current rating	2%	2%
Overcollateralisation upon a one-notch issuer downgrade	2%	2%
Weighted average life of assets[2]	10.6 years	n/a
Weighted average life of liabilities[2]	10.6 years	n/a
Number of loans	155,214	158,530
Average loan size (DKK)	1,748	1,742
Top 10 exposures Residential	0.9%	0.9%
Top 10 exposures Commercial	4.90%	5.0%
Interest rate type – assets	Fixed: 99.6%	Fixed: 99.5%
	Floating: 0.4%	Floating: 0.5%
Interest rate type – liabilities	Fixed: 99.6%	Fixed: 99.5%
	Floating: 0.4%	Floating: 0.5%
Weighted average eligible-loan LTV ratio	44.6%	41.6%
Geographic split (top three)	Hovedstaden 48.7%	Hovedstaden 48.1%
	Syddanmark 16.1%	Midtjylland 16.4%
	Midtjylland 15.9%	Syddanmark 16.2%
Default measure	Inv. Gaussian	Inv. Gaussian
Mean default rate	2.30%	2.3%
Coefficient of variation	50.00%	48.0%
Base – recovery assumption	99.30%	94.10%
Stressed – recovery assumption	77.50%	78.60%
Max. liquidity premium (Residential/Commercial)	150 / 300 bps	150 / 300 bps
Servicing fee	30 bps	30 bps

[1] Covered bonds issued after 2014 can be extended if refinancing fails. [2] Scope calculated.

Summary of covered bond characteristics CC T

Reporting date	2023-12-31	2023-03-30
Issuer name	Realkredit Danmark A/S	
Country	Denmark	
Covered bond name	særligt dækkede realkreditobligationer (SDROs)	
Covered bond legal framework	Danish legal covered bond framework	
Cover pool type	Mortgage loans	
Composition	Residential = 65.2%	Residential = 65.4%
	Commercial = 28.2%	Commercial = 28.5%
	Substitute assets = 6.6%	Substitute = 6.0%
Issuer rating	A+/Stable	A+/Stable
Current covered bond rating	AAA/Stable	AAA/Stable
Covered bond maturity type[1]	Soft bullet	Soft bullet
Cover pool currencies	DKK (96.0%) EUR (0.4%) SEK (2.3%) NOK (1.2%)	DKK (95.8%) EUR (0.6%) SEK (2.5%) NOK (1.1%)
Covered bond currencies	DKK (96.5%) EUR (0.4%) SEK (2.0%) NOK (1.1%)	DKK (96.6%) EUR (0.5%) SEK (2.0%) NOK (0.9%)
Governance support (notches)	6	6
Maximum additional uplift from CPC Cat (notches)	3	3
Maximum achievable covered bond uplift (notches)	9	9
Covered bond rating buffer (notches)	5	5
Cover pool (DKK m)	484,284	475,613
of which substitute assets and deposits (DKK m)	31,991	28,671
Covered bonds (DKK m)	452,293	446,941
Overcollateralisation: current/legal minimum	7.1% / 2%	6.4% / 2%
Overcollateralisation to support current rating	2%	2%
Overcollateralisation upon a one-notch issuer downgrade	2%	2%
Weighted average life of assets[2]	10.7 years	n/a
Weighted average life of liabilities[2]	10.7 years	n/a
Number of loans	192,241	196,517
Average loan size (DKK)	2,353	2,274
Top 10 exposures Residential	1.4%	1.4%
Top 10 exposures Commercial	6.7%	6.7%
Interest rate type – assets	Floating 99.95%	Floating 99.9%
	Fixed 0.05%	Fixed 0.1%
Interest rate type – liabilities[3]	Floating 23.4%	Floating 21.8%
	Fixed 76.6%	Fixed 78.2%
Weighted average eligible-loan LTV ratio	49.9%	47.9%
Geographic split (top three)	Hovedstaden 51.37%	Hovedstaden 51.0%
	Midtjylland 16.2%	Midtjylland 16.1%
	Syddanmark 15.3%	Syddanmark 15.5%
Default measure	Inv. Gaussian	Inv. Gaussian
Mean default rate	2.50%	2.4%
Coefficient of variation	75.0%	75.0%
Base – recovery assumption	99.90%	96.60%
Stressed – recovery assumption	80.40%	80.80%
Max. liquidity premium (Residential/Commercial)	150 / 300 bps	150 / 300 bps
Servicing fee	33 bps	33 bps

[1] Covered bonds issued after 2014 can be extended if refinancing fails. [2] Scope calculated. [3] Fixed-rate bonds in Capital Centre T are refinanced regularly, reflecting the reset cycles of the mortgage loans.

Lead Analysts

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