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## Transaction Update: BRFKredit A/S Capital Center General (Mortgage Covered Bonds Program)

Realkreditobligationer

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## Ratings Detail

Reference Rating Level	a+	+	Jurisdictional-Supported Rating Level	aa+	+	Maximum Achievable Covered Bond Rating	aaa	=	Covered Bond Rating	
Resolution Regime Uplift	+2		Jurisdictional Support Uplift	+3		Collateral Support Uplift	+3		AAA/Stable/A-1+	
									Rating Constraints	aaa-
Systemic Importance	Very Strong		Jurisdictional Support Assessment	Very Strong		Overcollateralization Adjustment	-1		Counterparty Risk	aaa
Adjusted Issuer Credit Rating	a-					Liquidity Adjustment	0			
GRE And Sovereign Support	0		Legal Framework	Very Strong						
			Systemic Importance	Very Strong		Available Credit Enhancement	+4		Country Risk	aaa
Issuer Credit Rating	A-		Sovereign Credit Capacity	Very Strong						

## Major Rating Factors

### Strengths

- Very strong jurisdictional support and liquidity coverage addressed by the Danish balancing principle.
- Well-seasoned residential and commercial loans.
- Match-funded structure helps the capital center to mitigate liquidity risk.

### Weakness

- Uncommitted overcollateralization.

## Outlook

Standard & Poor's Ratings Services' stable outlook on its ratings on BRFkredit A/S' Capital Center General's mortgage covered bonds reflects the two unused notches of uplift for the ratings on the covered bonds from the long-term issuer rating (ICR). We could lower our ratings on the covered bonds if the overcollateralization for the current rating level were to exceed the available credit enhancement for the mortgage covered bonds.

## Rationale

On Dec. 18, 2015, we affirmed our ratings on BRFkredit's Capital Center General mortgage covered bonds (see "Ratings Affirmed On BRFkredit's General Capital Center Mortgage Covered Bonds Following Review").

Our ratings reflect the application of our criteria for rating covered bonds (see "Covered Bonds Criteria" and "Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities," both published on Dec. 9, 2014, "Analyzing European Commercial Real Estate Collateral In European Covered Bonds," published on March 31, 2015, and Methodology And Assumptions For Analyzing Mortgage Collateral In Danish Covered Bonds, published on May 2, 2012). Our rating analysis for the covered bonds also follows the framework set out in our criteria article "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015.

The 'AAA' ratings reflect our reference rating level (RRL) of 'a+' and jurisdiction-supported rating level (JRL) of 'aa+' for the capital center, as well as the overcollateralization coverage of one notch of collateral-based uplift from the JRL.

The 'A-1+' short-term ratings on the covered bonds reflect the creditworthiness of the short-term maturity bonds that can be issued, or are outstanding, under this capital center, using the mapping methodology set out in the criteria article "Commercial Paper I: Banks," published on March 23, 2004.

Lastly, the ratings on the capital center and related issuances are not constrained by legal, operational, or counterparty risks.

**Table 1**

Program Overview*	
Jurisdiction	Denmark
Year of first issuance	1990
Covered bond type	Legislation-enabled
Outstanding covered bonds (bil. DKK)	5.10
Redemption profile	Mixed
Underlying assets	Residential mortgages and commercial mortgages
Jurisdictional support uplift	3
Unused notches for jurisdictional support	0
Target credit enhancement (%)	23.03
Available credit enhancement (%)	27.34
Collateral support uplift	3
Unused notches for collateral support	2
Total unused notches	2

\*Based on data as of Sept. 30, 2015.

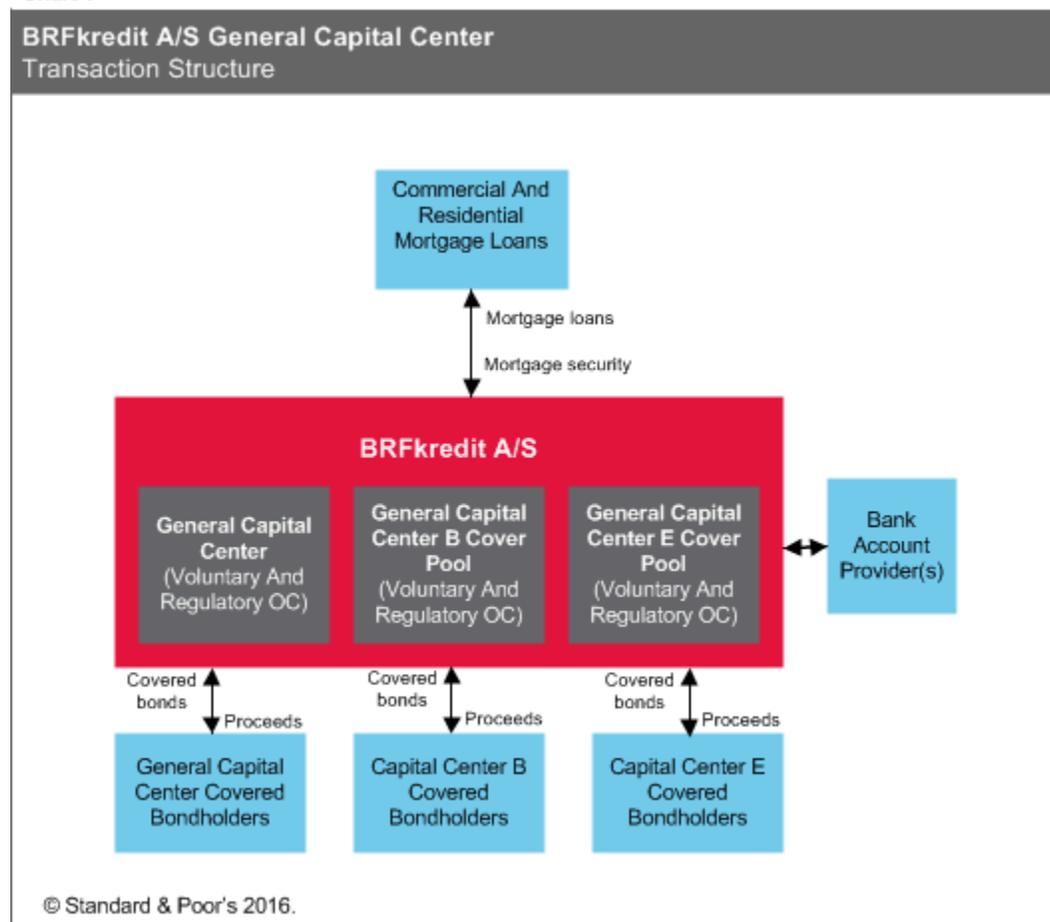
**Table 2**

Program Participants			
Role	Name	Rating	Rating dependency
Issuer	BRFkredit A/S	A-/Stable/A-2	N

**Table 2**

Program Participants (cont.)				
Account provider	Danske Bank A/S	A/Stable/A-1	Y	
Account provider	Nordea Bank Danmark A/S	AA-/Negative/A-1+	Y	

**Chart 1**



## Rating Analysis

### Legal and regulatory risks

In our view, the Danish covered bond framework sufficiently addresses the relevant legal aspects of our covered bonds criteria and our European legal criteria (see "Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance," published on Sept. 13, 2013 and "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015). This enables us to assign ratings to covered bonds that exceed the long-term rating on the issuer.

In our view, the Danish covered bond framework sufficiently addresses the relevant legal aspects of our covered bond and European legal criteria. This enables us to rate the covered bonds above our long-term ICR on the issuer's parent bank. The Danish Covered Bond Act provides the legal framework for the issuance of the Danish covered bonds.

Covered bond investors have a primary secured claim against all assets in the cover pool. The ratings on the covered bonds issued from the capital center rely on the issuer's active management of the overcollateralization to support the current ratings.

To become eligible as collateral, mortgage loans must be entered in the Danish land register. The registration is legally binding and will form the basis of any bankruptcy proceedings. If bankruptcy proceedings have been initiated, a trustee appointed by the bankruptcy court will administer the cover pool assets. The trustee is ordered by law to meet all payment obligations as they fall due. If payments from the cover assets are insufficient to meet the payment obligations, the trustee has the authority to raise additional loans.

The issuer must maintain an overcollateralization of at least 8% of risk-weighted assets. Banking supervision is carried out by the Danish Financial Supervisory Authority (FSA). The FSA has the authority to issue an order with which the issuer must comply. In case of severe or multiple breaches, the FSA may revoke the license.

### **Operational and administrative risks**

In September 2015, we conducted a review of BRFkredit's origination, underwriting, collection, and default management procedures for the capital center's cover pool assets. We also reviewed the cover pool management and administration. We consider that BRFkredit actively manages the cover pool and has strict underwriting and loan management policies. In addition to an annual meeting, we have ongoing regular contact with the issuer.

We also believe that it is highly likely that the issuer would be able to appoint a replacement cover pool manager if it were to become insolvent. Our analysis of operational and administrative risks follows the principles laid out in our covered bond ratings framework.

### **Resolution regime analysis**

As part of our covered bonds criteria, our analysis considers any resolution regime in place in Denmark to determine the RRL. As Denmark is part of the EU and is required to implement the EU's Bank Recovery And Resolution Directive, this analysis considers the support provided by the eventual adoption of the regime. In Denmark, mortgage credit institutions such as BRFkredit are excluded from bail-in, but are required to issue a certain amount of "bail-inable" debt instruments. This does not affect our resolution regime analysis, as the covered bonds are still protected during resolution. As such, we assign two notches of uplift from the adjusted ICR, resulting in a RRL of 'a+'.

### **Jurisdictional support analysis**

Under our analysis of jurisdictional support in our covered bonds criteria, we determine a JRL--which is our assessment of the creditworthiness of a covered bond program--once we have considered the level of jurisdictional support, but before giving credit to the amount of collateral.

In our jurisdictional support analysis, we assess the likelihood that a covered bond program facing stress would receive support from a government-sponsored initiative, instead of from the liquidation of collateral assets in the open market. Our assessment of the expected jurisdictional support for Danish mortgage covered bond programs is "very strong" (see "Assessments For Jurisdictional Support According To Our Covered Bonds Criteria," published on Dec. 22, 2015). Under our covered bonds criteria, this means that the program can receive up to three notches of jurisdictional uplift from the RRL. This leads to a JRL of 'aa+' for BRFkredit's Capital Center General mortgage covered bonds.

## Collateral support analysis

We base our analysis on the loan-level data provided by the issuer as of Sept. 30, 2015. The cover pool primarily comprises Danish residential (5.91%), commercial mortgages (15.86%), and subsidized housing assets (56.76%). The pool also has substitute assets (21.47%).

The weighted-average foreclosure frequency (WAFF) has increased to 18.18% from 15.93% in September 2013. This was driven mainly by the increase in the proportion of commercial assets and an increase in loan-to-value ratios (LTVs) for residential and subsidized, together with an increase in the proportion of subsidized housing. The increase in LTV ratios is driven by a general valuation clean-up exercise performed by the issuer over the last two years. In general, the issuer has decreased the valuations, therefore increasing the overall LTV ratios.

The weighted-average loss severity (WALS) has increased to 39.59% from 34.43% over the same period. This increase is mainly due to the increase in the proportion of commercial assets which have higher market-value-decline assumption applied to the property value when calculating losses under our commercial real estate criteria.

The substitute collateral consists of Danish covered bonds and we derive the scenario default rate (SDR) for this subpool, including the guaranteed part of the subsidized housing assets. We consider this subpool as highly granular, based on the public sector criteria. The SDR has increased from 30.52% to 36.91% from September 2013 to September 2015 and the weighted-average recovery has decreased from 100% to 36.23% over the same time period due to the application of the assumptions underlying the new criteria described above.

**Table 3**

Cover Pool Composition					
Asset type	As of Sept. 30, 2015		As of Sept. 30, 2013		
	Value (DKK)	Percentage of cover pool (%)	Value (DKK)	Percentage of cover pool (%)	
Residential assets	383,208,278	5.91	757,450,280	9.63	
Commercial assets	1,029,328,275	15.86	1,226,496,993	15.59	
Subsidized housing	3,683,582,497	56.76	3,945,152,222	50.15	
Substitute assets	1,393,364,969	21.47	1,937,666,224	24.63	
Total	6,489,484,019	100.00	7,866,765,719	100.00	

**Table 4**

Key Credit Metrics		
	As of Sept. 30, 2015	As of Sept. 30, 2013
Weighted-average LTV ratio (%)	54.74	45.96
Weighted-average loan seasoning (months)*	199.89	165.53
Balance of loans in arrears (%)	0.22	0.69
<b>Credit analysis results:</b>		
Weighted-average foreclosure frequency (WAFF; %)	18.18	15.93
Weighted-average loss severity (WALS; %)	39.59	34.43
AAA credit risk (%)	19.05	7.95

\*Seasoning refers to the elapsed loan term.

**Table 5**

<b>Covered Pool Assets By Loan Size</b>		
	<b>As of Sept. 30, 2015</b>	<b>As of Sept. 30, 2013</b>
(DKK 000's)	<b>Percentage of cover pool (%)</b>	
<b>Residential assets</b>		
0-500,000	8.62	13.46
500,000-1,000,000	1.68	3.91
1,000,000-1,500,000	0.60	2.17
1,500,000-2,000,000	0.38	2.25
Greater than 2,000,000	88.72	90.42
<b>Commercial assets</b>		
0-500,000	2.62	3.75
500,000-1,000,000	2.81	3.48
1,000,000-1,500,000	2.31	3.27
1,500,000-2,000,000	2.33	4.04
2,000,000-2,500,000	5.05	4.1
2,500,000-3,000,000	2.29	4.08
Greater than 3,000,000	82.59	77.29

**Table 6**

<b>LTV Ratios</b>		
	<b>As of Sept. 30, 2015</b>	<b>As of Sept. 30, 2013</b>
(%)	<b>Percentage of cover pool (%)</b>	
<b>Residential assets (incl. Subsidized housing)</b>		
0-60	27.67	33.42
60-70	3.91	21.87
70-80	18.63	17.62
80-90	6.47	9.86
90-100	10.52	6.64
Above 100	32.80	10.60
<b>Commercial assets</b>		
0-60	73.97	63.54
60-70	8.10	5.36
70-80	7.31	10.76
80-90	2.78	3.22
90-100	2.24	0.65
Above 100	5.60	16.47

Weighted-average LTV ratios

**Table 7**

<b>Loan Seasoning Distribution*</b>		
	<b>As of Sept. 30, 2015</b>	<b>As of Sept. 30, 2013</b>
	<b>Percentage of portfolio (%)</b>	
<b>Residential assets</b>		
Less than 24	3.00%	2.28
24-36	0.00%	1.13
36-48	0.00%	1.35
48-60	0.00%	0.85
More than 60	99.71	94.26
<b>Commercial assets</b>		
Less than 18	0	5.69
18-24	0	0.85
24-36	0	0.71
36-48	0	3.35
48-60	0	0.92
More than 60	99.97	88.47
Weighted-average loan seasoning (months)	196.5	145.26

\*Seasoning refers to the elapsed loan term.

**Table 8**

<b>Geographic Distribution Of Loan Assets</b>		
	<b>As of Sept. 30, 2015</b>	<b>As of Sept. 30, 2013</b>
	<b>Percentage of cover pool (%)</b>	
<b>Residential assets</b>		
Other	0.57	0.00
North Denmark Region	7.93	6.87
Central Denmark Region	23.42	19.63
Region Zealand	12.22	11.88
Capital Region of Denmark	44.04	51.26
South Denmark Region	11.81	10.36
<b>Commercial assets</b>		
Other	0.07	0.00
North Denmark Region	4.52	4.88
Central Denmark Region	6.91	10.29
Region Zealand	9.93	8.35
Capital Region of Denmark	70.79	68.04
South Denmark Region	7.78	8.44

**Table 9**

<b>Collateral Uplift Metrics</b>		
	<b>As of Sept. 30, 2015</b>	<b>As of Sept. 30, 2013</b>
Asset WAM (years)	10.81	15.29

**Table 9**

<b>Collateral Uplift Metrics (cont.)</b>		
Liability WAM (years)	13.1	13.35
Available credit enhancement	27.34	32.78
Required credit enhancement for first notch of collateral uplift (%)	20.04	N/A
Required credit enhancement for second notch of collateral uplift (%)	21.04	N/A
Required credit enhancement for third notch collateral uplift (%)	22.04	N/A
Target credit enhancement for maximum uplift (%)	23.03	9.21
Potential collateral-based uplift (notches)	4	N/A
Adjustment for liquidity (Y/N)	N	N/A
Adjustment for committed overcollateralization (Y/N)	Y	N/A
Collateral support uplift (notches)	3	N/A

WAM--Weighted-average maturity. N/A--Not applicable.

According to our covered bonds criteria, the maximum potential collateral-based uplift on a covered bond program above the JRL is four notches. We then look to make adjustments to the maximum collateral-based uplift by reviewing the coverage of six months of liquidity and the level of commitment for the overcollateralization. For traditional Danish covered bonds, we consider that the match-funded structure mitigates liquidity risk. Regarding the commitment for overcollateralization, the available credit enhancement is provided on a voluntary basis, reducing the amount of collateral-based uplift by one notch.

By applying our credit and cash flow stresses, we calculate a target credit enhancement of 23.03%. This is an increase since the 9.21% of target credit enhancement that we calculated in September 2013. The increase is driven by the more severe results of the credit analysis described above.

However, given the JRL of 'aa+', under our covered bonds criteria, only coverage of the 'AAA' credit risk plus 50% refinancing costs (the credit enhancement for the second notch of collateral uplift--second notch because of the absence of an overcollateralization commitment) is required to achieve the maximum rating.

### Counterparty risk

We analyze counterparty risk by applying our counterparty criteria (see "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013, and "Counterparty Risk Analysis In Covered Bonds," published on Dec. 21, 2015).

We have identified several counterparty risks to which the covered bonds could be exposed. However, these are mitigated through either structural mechanisms or the Danish Covered Bond Act. Therefore, we do not consider them to constrain our ratings on the covered bonds.

Under Danish legislation, cash is only eligible as a substitute asset and cannot replace an asset in a cover pool and still fulfill the balancing principle. Cash holdings on transaction accounts are generally settled intraday. However, banks can invest in short-term deposits to maintain match funding under the balancing principle.

Nordea Bank Danmark and Danske Bank A/S are the main bank account providers for Capital Center General. The accounts the issuer holds with them are covered by an account replacement commitment, which we consider to be in

line with our counterparty criteria, and which does not constrain our ratings on the covered bonds. Currently, the issuer hasn't registered any swaps for Capital Center General.

### **Country risk**

When applicable, we cap our ratings on mortgage covered bond programs under our updated criteria for rating single-jurisdiction securitizations above the sovereign foreign currency rating (see "Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance," published on May 29, 2015). Under the criteria, we classify the sensitivity to the country as "moderate." Combined with our long-term 'AAA' rating on Denmark and the coverage of 12-month liquidity through the match-funding structure, this allows the covered bonds to be rated four notches above the sovereign. As Denmark is currently rated 'AAA', country risk does not constrain the rating in any way.

## **Related Criteria And Research**

### **Related Criteria**

#### **Criteria**

- Counterparty Risk Analysis In Covered Bonds, Dec. 21, 2015
- Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance, May 29, 2015
- Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds, March 31, 2015
- Covered Bonds Criteria, Dec. 9, 2014
- Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities, Dec. 9, 2014
- Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Sept. 13, 2013
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Guarantee Criteria--Structured Finance, May 7, 2013
- Methodology And Assumptions For Analyzing Mortgage Collateral In Danish Covered Bonds, May 2, 2012
- Credit Stability Criteria, May 3, 2010
- Understanding Standard & Poor's Rating Definitions, June 3, 2009
- Update To The Cash Flow Criteria For European RMBS Transactions, Jan. 6, 2009
- Commercial Paper I: Banks, March 23, 2004
- Cash Flow Criteria for European RMBS Transactions, Nov. 20, 2003

### **Related Research**

- Global Covered Bond Characteristics And Rating Summary Q4 2015, Dec. 29, 2015
- Assessments For Jurisdictional Support According To Our Covered Bonds Criteria, Dec. 22, 2015
- Ratings Affirmed On BRFkredit's General Capital Center Mortgage Covered Bonds Following Review, Dec. 18, 2015
- Advance Notice Of Proposed Criteria Change: RMBS In Certain European Jurisdictions, Nov. 13, 2015
- Global Covered Bond Characteristics And Rating Summary Q3 2015, Nov. 5, 2015
- Danish Covered Bond Index Report H1 2015: Collateral Performance Improves, Aug. 12, 2015
- Covered Bond Monitor: Technical Note, Aug. 12, 2015
- Various Rating Actions On Four Danish Banks After Review Of Government Support And Additional

*Transaction Update: BRFkredit A/S Capital Center General (Mortgage Covered Bonds Program)*

Loss-Absorbing Capacity, July 13, 2015

- Covered Bond Monitor, June 26, 2015
- Banking Industry Country Risk Assessment: Denmark, Dec. 10, 2014
- Standard & Poor's Ratings Definitions, Nov. 20, 2014

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