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Transaction Update: BRFKredit A/S Capital Center B (Mortgage Covered Bond Program)

Unlimited "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+	
Systemic Importance	Very Strong	Jurisdictional Support Assessment	Very Strong	Overcollateralization Adjustment	-1	Rating Constraints	aaa
Adjusted Issuer Credit Rating	a-	Legal Framework	Very Strong	Liquidity Adjustment	0	Counterparty Risk	aaa
GRE And Sovereign Support	0	Systemic Importance	Very Strong	Available Credit Enhancement	13.05	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 with low loan-to-value (LTV) ratios.
- Relatively well-matched asset and liability profiles.

Weaknesses

- Obligor-level concentration risks in the cover pool, which we reflect in our credit enhancement results.

Outlook

The stable outlook on our ratings on BRFkredit A/S' Capital Center B mortgage covered bonds reflects our view that we would not automatically lower the ratings on the covered bonds if we were to lower our long-term rating on BRFkredit by one notch. 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 Oct. 22, 2015, we affirmed our ratings on BRFkredit's Capital Center B Mortgage Covered Bonds (see "Ratings Affirmed On BRFkredit's Capital Center B Mortgage Covered Bonds Following Revised Criteria Application").

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, and "Analyzing European Commercial Real Estate Collateral In European Covered Bonds," published on March 31, 2015). 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.

Program Description

Table 1

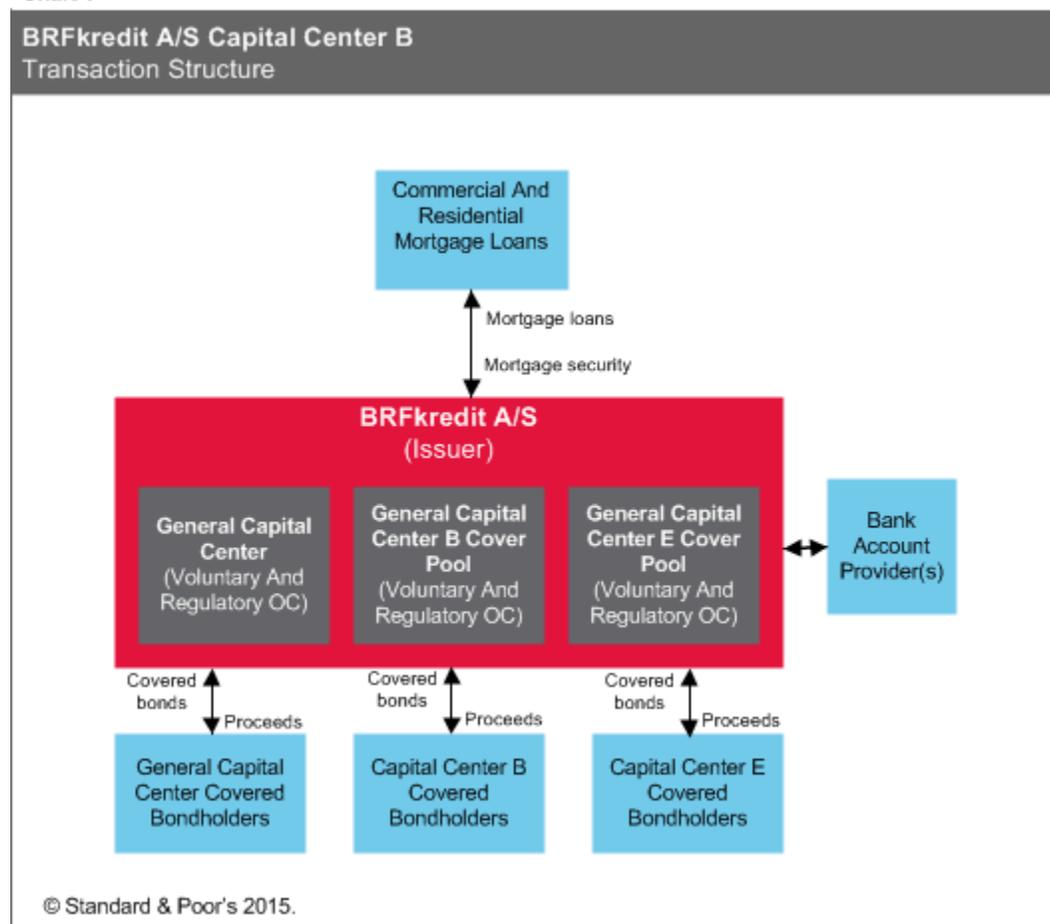
Program Overview*	
Jurisdiction	Denmark
Year of first issuance	2005
Covered bond type	Legislation-enabled
Outstanding covered bonds (Bil. €)	Amount
Redemption profile	Mixed
Underlying assets	Residential mortgages and commercial mortgages
Jurisdictional support uplift	3
Unused notches for jurisdictional support	0
Target credit enhancement (%)	13.88
Available credit enhancement (%)	13.05
Collateral support uplift	3
Unused notches for collateral support	1
Total unused notches	1

*Based on data as of June 30, 2015.

Table 2

Program Participants			
Role	Name	Rating	Rating dependency
Issuer	BRFkredit A/S	A-/Stable/A-2	N
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). This enables us to assign ratings to the covered bonds that exceed the long-term rating on the issuer.

The Danish Covered Bond Act provides the legal framework for the issuance of the Danish covered bonds. The current

Covered Bond Act was amended in July 2007 introducing covered bonds, "særligt dækkede obligationer" or SDOs, which opened the issuance of covered bonds to universal banks. The SDOs comply with both the Undertakings for the Collective Investment in Transferable Securities and the Capital Requirements Regulation.

Covered bond investors have a primary secured claim against all assets in the cover pool. Issuers must regularly revalue the collateral for SDOs and post additional overcollateralization if the collateral registered for SDOs experiences market value declines. Regulators do not require that "realkreditobligationer" (RO) issuers do this, and therefore ROs will attract different risk weightings under the Basel III capital requirements. We would expect the ratings on the covered bonds, issued out of Capital Center B, to rely on the issuer's active management of the overcollateralization to support the currently assigned ratings.

To become eligible as collateral, mortgages 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 cover pool 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.

We base our analysis of legal risk on the guidelines in our European legal criteria and other criteria articles listed in "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015.

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.

We also believe that it is highly likely that the issuer would 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 issuer credit rating, 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 Bond Criteria," published on Dec. 22, 2014). 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 B mortgage covered bonds.

Collateral support analysis

We base our analysis on the loan-level data provided by the issuer as of June 30, 2015. The cover pool primarily comprises Danish residential and commercial mortgages (88.46%). The pool also has substitute assets (11.54%).

The weighted-average foreclosure frequency (WAFF) has increased to 28.45% from 20.63% in March 2014. This was driven mainly by the increase in the proportion of commercial assets, for which we apply higher base foreclosure frequency assumptions, an increase in arrears, and our commercial real estate criteria.

The weighted-average loss severity (WALS) has increased to 48.58% from 38.64% over the same period. This increase is mainly due to the increase in the proportion of commercial assets and the higher market-value-decline assumption applied to the property value when calculating losses under our commercial real estate criteria.

Table 3

Cover Pool Composition					
Asset type	As of June 30, 2015		As of March 31, 2014		
	Value (DKK)	Percentage of cover pool (%)	Value (DKK)	Percentage of cover pool (%)	
Residential assets	10,144,526,750	30.56	15,431,462,686	33.53	
Commercial assets	18,564,573,313	55.92	25,104,739,796	54.55	
Substitute assets	3,832,318,598	11.54	4,183,555,647	9.09	
Subsidised housing	657,599,253	1.98	1,299,354,770	2.82	
Total	33,199,017,914	100	46,019,112,899	100	

Table 4

Key Credit Metrics		
	As of June 30, 2015	As of March 31, 2014
Average loan size (DKK)	1,767,056	1,818,226
Weighted-average LTV ratio (%)	69.04	67.46
Weighted-average loan seasoning (months)*	93.45	89.18
Balance of loans in arrears (%)	2.98	0.87
Credit analysis results:		
Weighted-average foreclosure frequency (WAFF; %)	28.45	20.63
Weighted-average loss severity (WALS; %)	48.58	38.64

Table 4

Key Credit Metrics (cont.)		
AAA credit risk (%)	8.15	3.73

*Seasoning refers to the elapsed loan term.

Table 5

Covered Pool Assets By Loan Size		
	As of June 30, 2015	As of March 31, 2014
(DKK 000's)	Percentage of cover pool (%)	
Residential assets		
0-500,000	17.09	14.69
500,000-1,000,000	29.10	30.17
1,000,000-1,500,000	26.40	26.35
1,500,000-2,000,000	14.54	15.22
Greater than 2,000,000	12.87	13.57
Commercial assets		
0-500,000	0.45	0.44
500,000-1,000,000	0.77	1.14
1,000,000-1,500,000	0.91	1.41
1,500,000-2,000,000	0.89	1.49
2,000,000-2,500,000	0.9	1.41
2,500,000-3,000,000	0.77	1.52
Greater than 3,000,000	95.31	92.6

Table 6

LTV Ratios		
	As of June 30, 2015	As of March 31, 2014
(%)	Percentage of cover pool (%)	
Residential assets		
0-60	42.34	35.06
60-70	27.60	18.60
70-80	11.35	20.31
80-90	18.56	11.08
90-100	0.11	14.66
Above 100	0.04	0.29
Commercial assets		
0-60	20.59	24.94
60-70	18.40	25.46
70-80	19.42	12.36
80-90	15.60	25.72
90-100	11.27	8.93
Above 100	14.72	2.59

LTV--Loan-to-value.

Table 7

Loan Seasoning Distribution*		
	As of June 30, 2015	As of March 31, 2015
	Percentage of portfolio (%)	
Residential assets		
Less than 24	0.2	0
24-36	1.34	0
36-48	1.57	0
48-60	1.73	0
More than 60	93.62	99.56
Commercial assets		
Less than 18	1.31	0.48
18-24	0.58	0.54
24-36	1.6	4.49
36-48	6.78	4.54
48-60	2.64	1.91
More than 60	80.99	86.88
Weighted-average loan seasoning (months)	93	89

*Seasoning refers to the elapsed loan term.

Table 8

Geographic Distribution Of Loan Assets		
	As of June 30, 2015	As of March 31, 2014
	Percentage of cover pool (%)	
Residential assets		
Central Denmark Region (urban)	16.81	16.57
Capital Region of Denmark (urban)	34.05	34.78
Region of South Denmark (non-urban)	16.81	17.07
Region Zealand (urban)	23.26	22.46
North Denmark Region (urban)	5.07	5.22
Other (non-urban)	4.15	3.90
Commercial assets		
Central Denmark Region (urban)	16.33	15.32
Capital Region of Denmark (urban)	50.20	53.08
Region of South Denmark (non-urban)	16.44	19.96
Region Zealand (urban)	12.85	11.64
North Denmark Region (non-urban)	4.18	0.00
Other (non-urban)	0.00	0.00

Table 9

Collateral Uplift Metrics		
	As of June 30, 2015	As of March 31, 2014
Asset WAM (years)	9.25	10.07

Table 9

Collateral Uplift Metrics (cont.)		
Liability WAM (years)	10.46	11.08
Available credit enhancement	13.05	10
Required credit enhancement for first notch of collateral uplift (%)	9.58*	N/A
Required credit enhancement for second notch of collateral uplift (%)	11.01*	N/A
Required credit enhancement for third notch Collateral Uplift (%)	12.45*	N/A
Target credit enhancement for maximum uplift (%)	13.88*	7.68
Potential collateral-based uplift (notches)	3	N/A
Adjustment for liquidity (Y/N)	N	N/A
Adjustment for committed overcollateralization (Y/N)	Y	N/A
Collateral support uplift (notches)	2	N/A

WAM--Weighted-average maturity. *The credit enhancement level which we consider commensurate with the current 'AAA' rating and any notches of collateral based uplift is floored at 12.57%, representing the outcome of the largest obligor test.

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 13.88%. This is an increase since the 7.68% of target credit enhancement that we calculated in September 2014. The increase is driven by the increase in the WAFF and WALS 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.

Under our commercial real estate criteria, to achieve the first notch of collateral-based uplift, the available credit enhancement must exceed the higher of 'AAA' credit risk plus 50% refinancing costs--which we calculate as 11.01%--and the result of our largest obligor default test--12.57%, explained below. The available credit enhancement is currently 13.05%. Therefore, the supplemental test acts as a floor to 'AAA' credit risk.

In particular, this supplemental test captures concentration risk in the cover pool. The minimum number of obligors is a function of the applicable stress scenario--'AAA' in this case--and the obligors' credit quality. Since assets in this pool are not rated, we assume an obligor rating in the 'B' to CCC-' range, so the credit enhancement commensurate for the cover pool is at least related to the net losses of the 10 largest obligors, as defined by the gross outstanding balance of the largest loans in the cover pool. This represents 12.57% of overcollateralization. In order to cover a 'AAA' credit stress scenario, the available credit enhancement must exceed this net loss result.

Counterparty risk

We analyze counterparty risk by applying our counterparty criteria (see "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013, and "Covered Bonds Counterparty And Supporting Obligations Methodology And Assumptions," published on May 31, 2012).

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 B. 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 B.

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

- 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
- Covered Bonds Counterparty And Supporting Obligations Methodology And Assumptions, May 31, 2012
- 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
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Related Research

- Ratings Affirmed On BRFKredit's Capital Center B Mortgage Covered Bonds Following Revised Criteria Application, Oct. 22, 2015
- Danish Covered Bond Index Report H1 2015: Collateral Performance Improves, Aug. 14, 2015
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- Various Rating Actions On Four Danish Banks After Review Of Government Support And Additional Loss-Absorbing Capacity, July 13, 2015
- Covered Bond Monitor, June 26, 2015
- Global Covered Bond Characteristics And Rating Summary Q1 2015, June 19, 2015
- Covered Bond Program And Spanish Multicedulas Ratings Placed Under Criteria Observation, April 30, 2015
- Assessments For Jurisdictional Support According To Our Covered Bond Criteria, Dec. 22, 2014
- Assessments For Target Asset Spreads According To Our Covered Bond Criteria, Dec. 22, 2014
- Banking Industry Country Risk Assessment: Denmark, Dec. 10, 2014
- Standard & Poor's Ratings Definitions, Nov. 20, 2014

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