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Transaction Update: Jyske Realkredit A/S (Capital Center E Mortgage Covered Bonds)

SDOs (Særligt Dækkede Obligationer)

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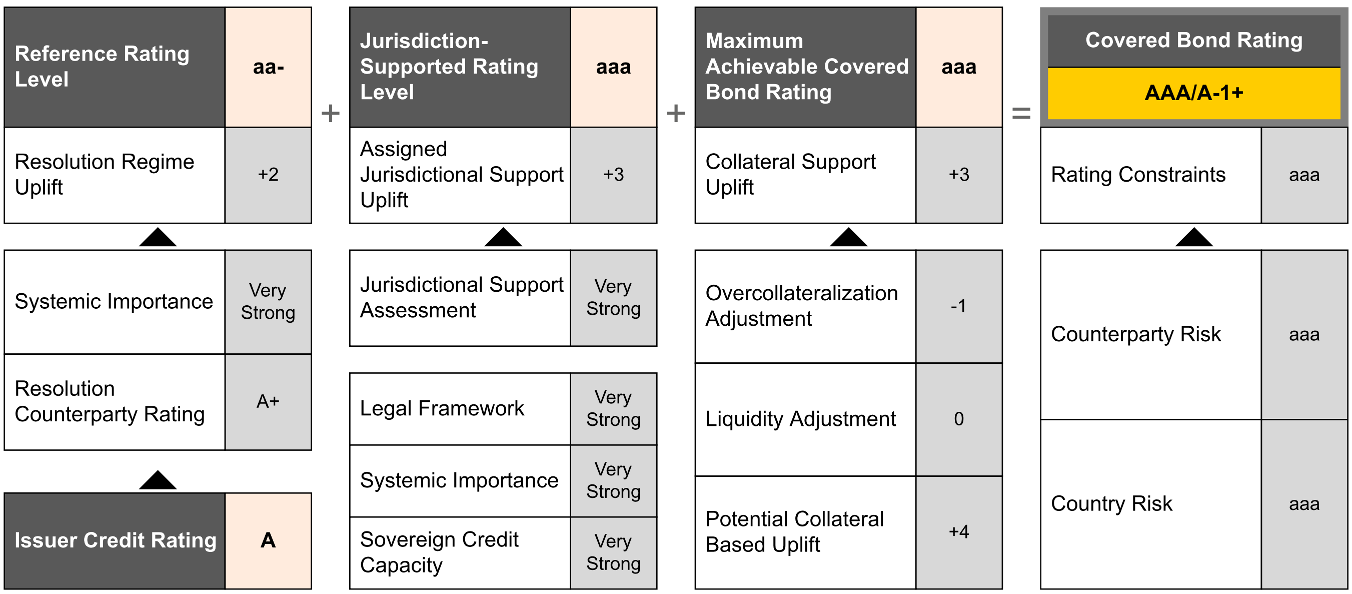
Ratings Detail



Major Rating Factors

Strengths

- A very strong jurisdictional support and liquidity coverage that is addressed by the Danish balancing principle.
- The three unused notches of collateral uplift, which would protect the rating if we downgraded the issuer.

Weakness

- Aside from the legislative minimum, there is no other commitment regarding available overcollateralization in the cover pool.

Outlook: Stable

The stable outlook on S&P Global Ratings' credit ratings on Jyske Realkredit A/S' capital center E covered bonds ("Særligt Dækkede Obligationer") reflects our view that we would not automatically lower the ratings on the covered bonds if we were to lower our long-term issuer credit rating (ICR) on Jyske Realkredit A/S by up to three notches. All else being equal, we would lower our ratings on the covered bonds if we lowered our ICR on the issuer by four notches or more or if the available overcollateralization no longer exceeds the level that is commensurate with 'AAA' ratings.

Rationale

We are publishing this transaction update following our periodic review of the Jyske Realkredit capital center E covered bond program and related issuances.

Our ratings reflect the application of our criteria for rating covered bonds (see "Related Criteria"). 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.

Under our covered bonds criteria, the 'AAA' ratings reflect our reference rating level (RRL) of 'aa-' and jurisdiction-supported rating level (JRL) of 'aaa' for the capital center, as well as the overcollateralization coverage of 'AAA' credit risk, in this instance floored by the largest obligor test.

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, according to the mapping methodology set out in our criteria "Methodology For Linking Long-Term And Short-Term Ratings," published on April 7, 2017.

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

Program Description

Table 1

Program Overview*	
Jurisdiction	Denmark
Year of first issuance	2007
Covered bond type	Legislation-enabled
Outstanding covered bonds (bil. DKK)	286.2
Redemption profile	Mixed
Underlying assets	Residential and commercial mortgages
Jurisdictional support uplift	3
Unused notches for jurisdictional support	0
Target credit enhancement (%)	4.28
Available credit enhancement (%)	5.89
Collateral support uplift	3
Unused notches for collateral support	3
Total unused notches	3

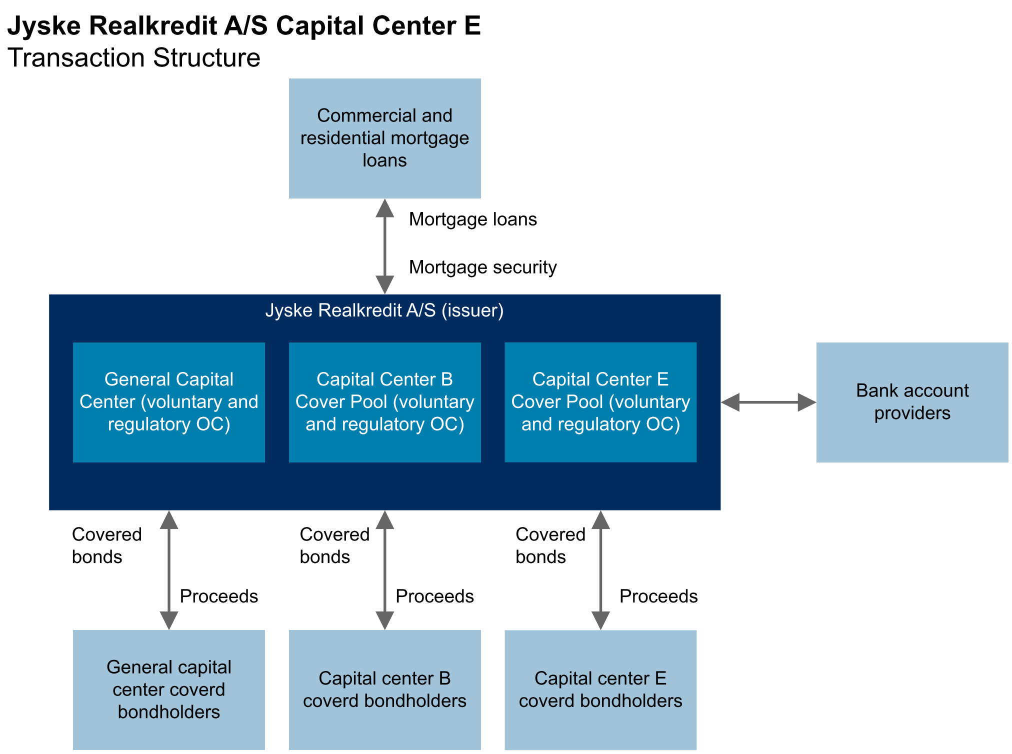
*Based on data as of June 30, 2019.

Table 2

Program Participants

Role	Name	Rating	Rating Dependency
Issuer	Jyske Realkredit A/S	A/Stable/A-1	Y
Originator and servicer	Jyske Realkredit A/S	A/Stable/A-1	N
Bank account provider	Nordea Bank Abp	AA-/Stable/A-1+	Y
Bank account provider	Danske Bank A/S	A/Stable/A-1	Y
Bank account provider	Jyske Bank A/S	A/Stable/A-1	Y
Swap counterparty	Jyske Bank A/S	A/Stable/A-1	Y
Swap counterparty	ING Bank N.V.	A+/Stable/A-1	Y
Swap counterparty	DekaBank Deutsche Girozentrale	A+/Negative/A-1	Y
Swap counterparty	Nordea Bank Abp	AA-/Stable/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 legal criteria (see "Asset Isolation And Special-Purpose Entity Methodology," published on March 29, 2017). This enables us to assign ratings to covered bonds that exceed the long-term ICR 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 by introducing "særligt dækkede obligationer" or SDOs, which opened the issuance of covered bonds to universal banks. 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.

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 proceeding. If bankruptcy proceedings are 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. The Danish Financial Supervisory Authority (FSA) carries out banking supervision and has the authority to issue orders 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 legal criteria and other criteria articles listed in our covered bonds rating framework criteria.

Operational and administrative risks

We have not identified any operational or administrative risks that would affect our assessment of the program. We consider the servicing and origination procedures to be prudent. We do not apply any analytical adjustments to account for operational and administrative risks.

Moreover, we believe that it is highly likely that a replacement cover pool manager could be appointed if the issuer were to become insolvent. We consider Denmark to be an established covered bond market and we believe that the mortgage assets in Jyske Realkredit capital center E's cover pool do not comprise features that would materially limit the range of available replacement cover pool managers or servicers.

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 the presence of resolution regimes when determining 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 adoption of the regime. In Denmark, mortgage credit institutions such as Jyske Realkredit 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.

The program's RRL is equal to the greater of (i) the ICR on the issuing bank, plus up to two notches for programs in jurisdictions with effective resolution regimes that exempt covered bond from bail-in, and (ii) the resolution counterparty rating (RCR) on the issuing bank, where applicable. Given Jyske Realkredit's 'A+' RCR, and our very strong systemic importance assessment for covered bonds in Denmark, the RRL is 'aa-', two notches above the ICR.

Jurisdictional support analysis

Under our analysis of jurisdictional support in our covered bonds criteria, we determine a JRL of 'aaa', 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 Oct. 16, 2018). 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 'aaa' for Jyske Realkredit's capital center E mortgage covered bonds.

Collateral support analysis

Capital center E is an active capital center, with most of Jyske Realkredit's new issuance coming from here.

As of March 2019, the cover pool primarily comprises Danish residential and commercial mortgages (85.95%) and subsidized housing assets (8.39%). The pool also includes a portion of substitute assets (5.66%). We base our credit analysis of mortgage assets on our criteria for analyzing mortgage collateral in Danish covered bonds and our commercial real estate criteria (see "Methodology And Assumptions: Assessing Pools Of European Residential Loans," published on Aug. 4, 2017 and "Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds," published on March 31, 2015). Our credit analysis of substitute assets and subsidized housing assets is based on our public sector criteria (see "Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities," published on Dec. 9, 2014).

The below tables provide an overview on the cover pool's composition.

Table 3

Cover Pool Composition

	March 31, 2019		March 31, 2018	
Asset type	**Value (bil. DKK)**	**Percentage of cover pool (%)**	**Value (bil. DKK)**	**Percentage of cover pool (%)**
Residential assets	167.45	54.53	155.22	51.79
Commercial assets	96.48	31.42	88.06	29.38
Subsidized housing	25.78	8.39	41.13	13.72
Substitute assets (excl. cash)	15.56	5.07	15.02	5.01
Cash	1.83	0.59	0.30	0.10
Total	307.10	100.00	299.73	100.00

Table 4

Key Credit Metrics

Residential mortgage assets	As of March 31, 2019	As of March 31, 2018
Weighted-average original LTV ratio (%)	64.55	63.80
Weighted-average current LTV ratio (%)	55.71	55.11
Weighted-average loan seasoning (months)*	52.9	52.7
Balance of loans in arrears (%)	0.01	0.17
Commercial mortgage assets		
Weighted-average current LTV ratio (%)	64.25	65.96
Balance of loans in arrears (%)	0	0.09
Credit analysis results (combined pool):		
Weighted-average foreclosure frequency (%)	16.16	15.41
Weighted-average loss severity (%)	35.03	35.14
'AAA' credit risk (%)	3.11	2.5

*Seasoning refers to the elapsed loan term. LTV--Loan to value.

Table 5

Current Loan-To-Value Ratios After HPI

	As of March 31, 2019	As of March 31, 2018*
Residential assets (%)	**Percentage of portfolio (%)**	
(0,10]	1.26	1.30
(10,20]	4.08	4.12
(20,30]	6.03	6.35
(30,40]	9.95	10.40
(40,50]	13.49	12.62
(50,60]	19.30	18.22
(60,70]	22.57	20.46
(70,80]	17.85	24.97
(80,90]	2.50	1.52
(90 - 100]	2.76	0.00
>100	0.22	0.05
Commercial assets(%)		
(0,10]	0.66	0.16
(10,20]	1.34	1.00
(20,30]	2.97	3.08
(30,40]	4.09	4.51
(40,50]	11.42	7.75
(50,60]	18.53	24.18
(60,70]	25.89	17.66
(70,80]	23.05	21.10
(80,90]	4.27	11.14
(90,100]	4.75	2.77
> 100	3.02	6.66

Table 5

Current Loan-To-Value Ratios After HPI (cont.)

*Includes subsidized housing loans. HPI--House price index.

Table 6

Loan Seasoning Distribution

	As of March 31, 2019	As of March 31, 2018*
Residential Mortgages	**Percentage of portfolio (%)**	
Less than 24 months	33.83	36.04
24-48	28.76	27.70
48-60	11.86	3.49
60-72	3.12	2.39
72-84	1.67	2.32
84-96	0.86	3.29
96-108	1.80	4.59
108-120	2.95	4.38
More than 120	15.16	15.80
Weighted-average loan seasoning (months)	52.91	35.17

*Includes subsidized housing loans.

Table 7

Geographic Distribution Of Loan Assets

	As of March 31, 2019	**As of March 31, 2018***
Residential mortgages	**Percentage of portfolio (%)**	
Hovedstaden	42.11	43.86
Midtjylland	24.37	22.28
Nordjylland	6.93	7.41
Sjaelland	14.25	13.78
Southern Denmark	12.34	12.66
Commercial mortgages (%)		
Hovedstaden	53.07	51.93
Midtjylland	16.71	17.19
Nordjylland	5.05	5.03
Sjaelland	7.72	7.81
Southern Denmark	17.45	18.03

*Includes subsidized housing loans.

Table 8

Collateral Uplift Metrics

	As of June 30, 2019	**As of March 31, 2019**	**As of June 30, 2018**
Asset WAM (years)	13.5	13.5	12.3
Liability WAM (years)	14.4	14.5	14.0
Available credit enhancement (%)	5.89	6.00	5.70
'AAA' credit risk	3.63	3.59	3.28

Table 8

Collateral Uplift Metrics (cont.)

	As of June 30, 2019	As of March 31, 2019	As of June 30, 2018
Required credit enhancement for first notch of collateral uplift (%)	3.63	3.59	3.28
Required credit enhancement for second notch of collateral uplift (%)	3.70	3.67	3.28
Required credit enhancement for third notch of collateral uplift (%)	3.99	3.94	3.28
Target credit enhancement for maximum uplift (%)	4.28	4.22	3.28
Potential collateral-based uplift (notches)	4	4	3
Adjustment for liquidity (Y/N)	N	N	N
Adjustment for committed overcollateralization	Y	Y	Y
Collateral support uplift (notches)	3	3	3

WAM--Weighted-average maturity.

We assess a typical mortgage cover pool's credit quality by estimating the credit risk associated with each loan in the pool. We then calculate the aggregate risk to assess the cover pool's overall credit quality. In order to quantify the potential losses associated with the entire pool, we weight each loan's foreclosure frequency and loss severity by its percentage of the total pool balance. The product of this weighted-average foreclosure frequency (WAFF) and weighted-average loss severity (WALS) estimates the required loss protection.

As of March 2019, we estimated, for the combined mortgage covered pool, a proportion of stressed defaults (WAFF) of 16.16% (15.41% at our previous review) and the expected losses given default (WALS) at 35.03% (35.14% previously). We base these metrics on the 'AAA' credit stresses that we applied.

Both WAFF and WALS are in line with our previous review as the pool characteristics have stayed very stable. The increase in the WAFF is driven by a slightly higher weighted-average original loan-to-value ratio on the residential assets, whereas the decrease in the WALS is due to a lower weighted-average loan-to-value ratio on the commercial assets.

In the analysis of the substitute assets, we classify this pool as non-granular according to our public sector criteria, due to the limited number of obligors in the portfolio. For non- granular pools, we assume that all assets with a rating of 'AAA' will not default, save for assets that are issued by other Jyske Realkredit capital centers. For the assets that default, we also determine the different recovery rates according to our public sector criteria. The result of the analysis leads to an assumed default rate of 0% (same as the previous analysis), given that all the assets are rated 'AAA'.

When analyzing public housing loans we have also used our public sector criteria (see "S&P Global Ratings Clarifies Its Approach To Analyzing Danish Subsidized Housing," published on Jan. 16, 2019). The result of the analysis of both types of collateral (substitute assets and public housing) leads to an assumed default rate of 43.98% and a recovery rate of 89.26%.

Our analysis of the covered bonds' payment structure shows that cash flows from the cover pool assets would be sufficient, at the current rating level, to make timely payment of interest and principal to the covered bond holders. Given the JRL, the program only needs to cover 'AAA' credit risk to reach a 'AAA' rating on the covered bonds.

We consider that there is an active secondary market for mortgages in Denmark. As a result, the program can benefit from up to four notches of collateral-based uplift according to our covered bonds criteria.

We then consider whether we need 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. We consider that the match-funded structure mitigates liquidity risk, given that the terms of the assets match the terms of the covered bonds. However, aside from the legislative minimum, there is no other commitment regarding the available overcollateralization in the program. As such, the potential collateral-based uplift is adjusted by one notch.

By applying our credit and cash flow stresses, we calculate a target credit enhancement, which would allow the covered bonds to receive all four notches of potential collateral-based uplift. The latest available target credit enhancement for this program, calculated based on June 2019 data, is equal to 4.28%, in line with the 4.22% figure which referenced March 2019 numbers.

Under our commercial real estate criteria and public sector criteria, we apply out-of-model supplemental tests to address portfolio concentration risk (see "Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds," published on March 31, 2015). Our largest obligor test, currently at 3.63%, floors the 'AAA' credit risk, otherwise equal to 3.11%, which in turn represents the overcollateralization that the program needs to cover in order to retain the 'AAA' rating.

Given that the program's available credit enhancement is commensurate with four notches of potential collateral-based uplift, which we adjusted by one notch for uncommitted overcollateralization, the program can reach a 'AAA' rating, benefitting from four unused notches of uplift from a cash flow perspective.

Counterparty risk

We analyze counterparty risk by applying our counterparty criteria (see "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019).

There are several counterparty risks to which the covered bonds could be exposed. However, these are mitigated and do not represent a constraint for our ratings on the covered bonds.

Bank accounts

Under Danish legislation, cash is only eligible as a substitute asset and cannot replace an asset in a cover pool and still fulfil 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 Abp, Danske Bank A/S, and Jyske Bank A/S are the main bank account providers for capital center E. The issuer commits to keep its cash holdings to a level below 5% of outstanding liabilities and to hold the monies in institutions rated 'BBB' or above. Should the holdings exceed the 5% threshold, the issuer would only deposit them in institutions rated 'A' or above.

These commitments support a 'AAA' rating under our counterparty criteria.

Swaps

Jyske Bank A/S, ING Bank N.V., DekaBank Deutsche Girozentrale, and Nordea Bank Abp are swap counterparties to the program.

The swaps entered into with external counterparties have a replacement trigger at 'A-', meaning that in light of the 'aa-' RRL on Jyske Realkredit, they support a 'AAA' rating on the covered bonds.

The swap agreements entered into with the parent, Jyske Bank A/S, also contain a replacement trigger set at 'A-', but because this counterparty is related to the issuer we map the trigger to its corresponding RRL. This translates in a replacement trigger of 'A', given the program's one notch differential between the RCR and RRL, which is supportive of a 'AAA' rating on the bonds.

Country risk

Our analysis of country risk follows the application of our structured finance sovereign risk criteria (see "Related Criteria"). All assets securing the liabilities are located in Denmark. Given our unsolicited long-term 'AAA' sovereign credit rating on Denmark, this risk does not constrain our rating on the covered bonds.

Related Criteria

- Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Methodology And Assumptions: Assessing Pools Of European Residential Loans, Aug. 4, 2017
- Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 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
- Credit Stability Criteria, May 3, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Various Rating Actions Taken On Five Danish Banks As Denmark's Banking Market Offers Mixed Blessings, Oct. 23, 2019
- S&P Global Ratings Definitions, Sept. 18, 2019
- Global Covered Bond Characteristics And Rating Summary Q3 2019, Sept. 10, 2019

- Global Covered Bond Insights Q3 2019, Sept. 10, 2019
- Denmark Ratings At 'AAA/A-1+'; Outlook Stable, March 8, 2019
- S&P Global Ratings Clarifies Its Approach To Analyzing Danish Subsidized Housing, Jan. 16, 2019
- Assessments For Target Asset Spreads According To Our Covered Bonds Criteria, Oct. 16, 2018
- Assessments For Jurisdictional Support According To Our Covered Bonds Criteria, Oct. 16, 2018
- Credit FAQ: The Danish Covered Bond Market Explained, July 15, 2014