

NON-RATING ACTION COMMENTARY

Fitch Ratings Raises the PCU of Realkredit's S and T Covered Bonds to Eight Notches from Six

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Fitch Ratings-Frankfurt-19 April 2024: Fitch Ratings has revised the payment continuity uplifts (PCUs) of Realkredit Danmark A/S's (A+/Stable/F1) covered bonds issued out of Capital Centres S and T to eight notches from six following the update of its *Covered Bonds Rating Criteria*. The PCUs had been limited to six notches as the protection for timely payment of interests is provided by liquid assets that may mature after the coupon payment date, thereby making them subject to market value risk.

Under Fitch's updated criteria, liquid assets accounted for at their market value are deemed eligible to support the maximum PCU of eight notches granted to pass-through programmes. Both programmes have 10 notches of uplift, consisting of a resolution uplift of zero notches, a PCU of eight notches and a recovery uplift of two notches. The programmes use only four notches above the Issuer Default Rating (IDR) of 'A+' to reach the 'AAA' rating for the covered bonds. The cushion against an IDR downgrade has therefore increased to six notches from four.

CC S and CC T have a pass-through amortisation structure, driven by the strict balance principle of specialised mortgage banks in Denmark. CC S bonds are fixed-rate bonds that match the maturity of the underlying cover assets. CC T covered bonds match the interest rate of the underlying assets (variable or adjustable-rate), but typically mature before the underlying cover assets that they are financing. This makes them subject to refinancing risk.

However, the maturity of the bonds will be extended by one year at a time if a refinancing cannot be carried out or if the

interest rate upon refinancing would increase by more than 5 percentage points. As such, CC T covered bonds have a conditional pass-through amortisation profile.

The cover assets in both programmes are composed of private residential mortgages loans, commercial mortgage loans and substitute liquid assets. Fitch's 'AAA' break-even overcollateralisation (OC) for CC S and CC T are 3% and 4%, respectively. Our analysis relies on the lowest observed level of OC over the past 12 months for each programme, corresponding to 6.2% for CC S and 6.4% for CC T.

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