DRAFT: Preliminary Ratings Assigned To Realkredit Danmark's Capital Centre T Covered Bond Issuances

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OVERVIEW

• We have assigned a preliminary 'AAA/Stable' long-term rating and a preliminary 'A-1+' short-term rating to Realkredit Danmark's issuances of "særligt dækkede realkreditobligationer" out of its Capital Centre T.
• The portfolio backing the bonds consists of first or second-lien loans secured on residential, commercial, and multifamily mortgages in Denmark.
• We have assigned these preliminary ratings based on our criteria for rating covered bonds. However, the methodologies and assumptions underlying these criteria are under review. The preliminary ratings on all outstanding covered bonds drawn under this covered bond program may be affected as a result of this review.

LONDON (Standard & Poor's) Nov. 16, 2011--Standard & Poor's Ratings Services today assigned a preliminary 'AAA' long-term credit rating and a preliminary 'A-1+' short-term credit rating to Realkredit Danmark A/S's (A/Negative/A-1) issuances of "særligt dækkede realkreditobligationer" (SDRO; Danish legislation-enabled covered bonds) out of its Capital Centre T. We have assigned a stable outlook to the long-term rating (see list below).

The ratings on the securities are preliminary as of Nov. 16, 2011, and subject to change at any time. We expect to assign initial credit ratings subject to a satisfactory review of outstanding issues. Standard & Poor's ratings address timely payment of interest and ultimate payment of principal on or before legal final maturity of the bonds.

Realkredit Danmark (RD) RD has already issued covered bonds (both
"realkreditobligationer" as well as SDROs) out of existing capital centers. Each capital center is ring-fenced and there is no cross collateralization or cross default between the individual centers.

If the issuer becomes insolvent, the covered bondholders will only have recourse to the individual capital center. An assigned administrator ("Kurator") will take on the responsibility of an orderly run down of the cover pool and if necessary, the refinancing of the mortgages.

Capital Centre T will primarily be used to finance adjustable-rate mortgages (ARM) by issuing SDROs of various maturities.

We expect most of the covered bonds to have a one-year maturity term but we also expect to see maturities of two, three, four, and five years. The bonds will be issued through auctions held in November and December 2011, and thereafter in April 2012. Currently RD expects to continue the biannual auctions, but will consider increasing the frequency of these depending on the market's development.

RD has recently announced changes, effective on Jan. 1, 2012, to its pricing of mortgage loans which will increase the spreads on the assets. We have considered this factor in our cash flow analysis.

Table 1
Expected Distribution Of Bond Maturities (%)

<table>
<thead>
<tr>
<th>Maturity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>One-year</td>
<td>85.8</td>
</tr>
<tr>
<td>Two-year</td>
<td>1.8</td>
</tr>
<tr>
<td>Three-year</td>
<td>7.5</td>
</tr>
<tr>
<td>Four-year</td>
<td>0.5</td>
</tr>
<tr>
<td>Five-year</td>
<td>4.4</td>
</tr>
</tbody>
</table>

Initially we expect Capital Centre T to include loans secured by mortgages on residential and commercial properties located in Denmark.

Table 2
Expected Geographical Distribution (%)

<table>
<thead>
<tr>
<th>Location</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>100.00</td>
</tr>
<tr>
<td>Copenhagen</td>
<td>29.13</td>
</tr>
<tr>
<td>Central Jutland</td>
<td>21.99</td>
</tr>
<tr>
<td>South Denmark</td>
<td>21.46</td>
</tr>
<tr>
<td>Zealand</td>
<td>18.71</td>
</tr>
<tr>
<td>North Jutland</td>
<td>8.71</td>
</tr>
<tr>
<td>Other</td>
<td>0.01</td>
</tr>
</tbody>
</table>

Table 3
Expected Property Type Distribution By Type (%)

<table>
<thead>
<tr>
<th>Property Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single family</td>
<td>56.88</td>
</tr>
</tbody>
</table>
Most loans in Capital Centre T will consist of ARM loans RD previously registered in either Capital Centre S or in Capital Center General, and which are up for refinancing at the dates mentioned above. Capital Center T will however also include newly originated ARM loans. As RD intends to remove ARMs from their existing capital centers, we expect that Capital Centre T's portfolio will eventually reflect the general credit and cash flow characteristics of RD's current total ARM portfolio. We expect the current concentration of the top 20 loans (4.74%) to decrease further as loans are refinanced in the new capital center.

RD applies the specific balance principle to issue the SDROs, often associated with matched funding, which matches interest rate and maturity profiles. However, to fund the ARM mortgages, the bonds issued only match the loan's interest profile, not the legal maturity. By law and contractual terms, RD must provide continuous funding by issuing new covered bonds at pre-agreed intervals until the loan reaches maturity.

Further, the borrower is contractually obligated to accept the full cost of funding for the mortgages. Due to the specifics of the balance principle of the Danish mortgage system, we do not model a sale of the cover pool at the first maturity of the bond, but assume that the issuer will refinance the bond at (stressed) market rates. We consider the refinancing of the adjustable-rate loans to be a potential credit risk as interest may increase substantially between interest reset periods, and hence expose the borrower to the risk that a loan's scheduled future periodic payments may increase substantially (a "payment shock"). We have therefore increased our base case foreclosure frequency rate for ARMs by 20%.

We have currently not observed any higher refinancing cost for this type of mortgage. Should we observe an increase in funding costs of ARMs compared with other mortgage products, we may reflect the different investor perception by adjusting our refinancing assumptions accordingly.

We have reviewed the asset and cash flow information provided and projected as of Jan. 1, 2012 to determine a "category 1" program categorization for Capital Centre T and a current asset-liability mismatch (ALMM) measure of "low". According to our covered bond criteria, the combination of both factors potentially allows for a seven-notch uplift above the issuer credit rating (see "Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds," published on Dec. 16, 2009).

Comparing our assessment of the target credit enhancement with the available
credit enhancement, we believe that the cover pool can fully support the potential rating uplift for our 'AAA' rating on these legislation-enabled mortgage covered bonds.

The stable outlook reflects our current view that adverse changes to our counterparty credit rating on RD or to the asset-liability mismatch measure would not automatically result in a change to the covered bond rating. We also believe that RD has the ability and willingness to manage the covered bonds at conditions commensurate with the preliminary ratings that we have assigned.

Table 4
Capital Centre T's Key Characteristics (As Of Jan. 1, 2012)

<table>
<thead>
<tr>
<th>Classification of ALMM mismatch</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program categorization</td>
<td>1</td>
</tr>
<tr>
<td>Maximum potential rating</td>
<td>AAA</td>
</tr>
<tr>
<td>Current available credit enhancement (%)</td>
<td>9.85</td>
</tr>
<tr>
<td>Target credit enhancement commensurate with the highest credit rating (%)</td>
<td>3.75</td>
</tr>
</tbody>
</table>

Note that we calculate the current credit enhancement as (assets - liabilities)/liabilities.
ALMM--Asset-liability mismatch.

TRANSACTION SUMMARY AND PORTFOLIO CHARACTERISTICS

Table 5
Expected Key Portfolio Characteristics (As Of Jan. 1, 2012)

| Total principal balance (DKK) | 202,109,558,743 |
| Bonds outstanding (DKK)       | 183,979,586,514 |
| Total number of loans         | 100,590         |
| Largest loan value (DKK)      | 960,377,472     |
| Average loan (DKK)            | 1,847,407       |

Expected average whole loan LTV ratio per asset type(%) [1]

| Subsidized housing            | 81.96          |
| Single family                 | 71.05          |
| Whole pool                    | 64.69          |
| Retail/industry/office/private rental | 57.93 |
| Agricultural                  | 52.26          |
| Tier one (hotels/social/cultural) | 40.40 |

Current level of Arrears in the expected portfolio(%)

| Retail/industry/office/private rental | 2.81 |
| Agricultural                           | 1.98 |
| Whole pool                             | 1.50 |
| Single family                          | 0.89 |
Subsidized housing 0.62  
Tier one (hotels/social/cultural) 0.44  

Expected Seasoning (Months)

Subsidized housing 80.6  
Tier one (hotels/social/cultural) 71.0  
Agricultural 57.3  
Whole pool 53.3  
Retail/industry/office/private rental 52.1  
Single family 51.1  

Proportion of ARMs (%) 100  
Proportion of IO loans (%) [2] 67  
Top 20 loans as % of pool 4.74  
Reserve fund (%) 9.85  

Expected reserve fund composition (%):

Capital Centre S SDROs 95.17  
Other capital centers 3.02  
Other Danish covered bonds 1.53  
Danish government bonds 0.28  

[1] Based on Standard & Poor's adjusted calculation.  
ARMs--Adjustable-rate mortgages.  
SDROs--“særligt dækkede realkreditobligationer”.  

Our credit analysis accounts for these characteristics and comprises:

- The sizing of the weighted-average foreclosure frequency (WAFF), which is essentially based on the LTV ratio of the underlying borrowers; and
- The determination of the weighted-average loss severity (WALS), which is derived from the loan-to-value (LTV) ratio and the expected market value decline of the property.

The product of the WAFF and WALS is the net loss that we assume may affect the portfolio in a 'AAA' scenario. At a 'AAA' level the closing WAFF and WALS results as of Jan. 1, 2012 are:

WAFF 23.83%  
WALS 27.17%  

Assumed net credit loss  
(WAFF x WALS) 6.61%  

RD has stated that it intends to continue transferring ARM loans from their existing capital centers into Capital Centre T. The loans will be moved as outstanding covered bonds mature and are refinanced from Capital Centre T. While RD aims to maintain a low-risk pool commensurate with the current
preliminary ratings that we have assigned, the envisaged changes to Capital Centre T will likely result in some changes to the credit risk in the portfolio. We intend to publish a new issue report once the issuer has finalized the current bond auctions.

POTENTIAL EFFECTS OF PROPOSED CRITERIA CHANGES

We have assigned the preliminary ratings on these covered bonds based on our criteria for rating covered bonds (see "Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds," published on Dec. 19, 2009). As part of our cash flow analysis, we used Standard & Poor's Covered Bond Monitor to calculate the target credit enhancement for the covered bonds. However, the assumptions and methodologies used in this cash flow analysis are under review (see "Advance Notice Of Proposed Criteria Change: Methodologies And Assumptions For Rating Certain Covered Bonds And CDOs," published on Aug. 5, 2010).

This review may result in further changes to the criteria. As a result, our future assumptions and methodologies used in our Covered Bond Monitor model may differ from our current criteria. The criteria change may affect the ratings on all outstanding covered bonds in this program. Until such time that we adopt new criteria for rating covered bonds, we will continue to rate and surveil these covered bonds using our existing criteria (see "Related Criteria And Research").

APPENDIX

BASE ASSUMPTIONS FOR THE CREDIT ANALYSIS OF DANISH MORTGAGE LOANS: RESIDENTIAL

Table 6
Base WAFF (%)

| AAA | 12 |

WAFF--Weighted-average foreclosure frequency.

Table 7
Adjustments To The WAFF

LTV >70%
Base multiplied by 1.1 to 3. (Increases as LTV increases and caps when LTVs reach 100%).

Seasoning benefit
Between 10% and 25% reduction to base, no adjustment applied to loans in arrears.

Buy-to-let loans
Base multiplied by 1.67.
Floating interest rate without cap (ARM loans)
20% addition of the base foreclosure frequency.

Jumbo loans (> DKK 3,000,000)
1% to 20% addition to the base foreclosure frequency. (Increases as loan size increases
and caps when loan size reaches DKK 4,200,000).

Geographic concentration of > 10% in non-urban areas
20% increase to base WAFF for loans in region affected.

Arrears
Case by case consideration depending on arrears management
and performance data. Increase of the base foreclosure frequency to 75%.

Bankruptcy
Case by case consideration. Up to 100% foreclosure frequency.

WAFF--Weighted-average foreclosure frequency.
ARM--Adjustable-rate mortgages.
LTV--Loan-to-value.

Table 8
Base Market Value Decline (%)
AAA 40

Table 9
Adjustment To Valuation

Valuation haircut 10% reduction on valuations made
Between Q1 2005 and Q4 2008.
Applied in the calculation of
WALS only.

WALS--Weighted-average loss severity.

Table 10
Adjustment To Loss Severity

Jumbo properties (>DKK 3,750,000) Loss severity increases by
between 1% to 20%.
(Increases as loan size
increases and caps when
loan size reaches
DKK 5,000,000).

Table 11
Commercial Property Type

Base WAFFs (%) AAA

Subsidized housing 12
Private rental 25
Agriculture 25
Office/retail/industrial 25
Land/incomplete buildings 50
Hotels/care homes/hospitals/exhibition centers 50
Leisure facilities/golf courses/other 55

WAFF--Weighted-average foreclosure frequency.

Table 12
Adjustments To The WAFF

LTV >70%
Base multiplied by 1.1 to 3. (Increases as LTV increases and caps when LTVs reach 100%).

Seasoning
Between 10% and 25% reduction to base, no adjustment applied to loans in arrears.

Floating interest rate without cap (ARM loans)
Base times 20%.

Geographic concentration of > 10% in non-urban areas
20% increase to base WAFF for loans in region affected.

Arrears
Case by case consideration depending on arrears management and performance data.
Up to 75% foreclosure frequency.

Bankruptcy
Case by case consideration. Up to 100% foreclosure frequency.

WAFF--Weighted-average foreclosure frequency.
ARM--Adjustable-rate mortgages.

Table 13
Commercial Property Type

Base market value decline (%) AAA

Subsidized housing 60
Private rental 55
Agriculture 55
Preliminary Ratings Assigned To Realkredit Danmark's Capital Centre T Covered Bond Issuances

Office/retail/industrial 55
Land/incomplete buildings 100
Hotels/care homes/hospitals/exhibition centers 75
Leisure facilities/golf courses/other 75

Table 14
Adjustment To Valuation

Valuation haircut 10% reduction on valuations made
Between Q1 2005 and Q4 2008.
Applied in the calculation of
WALS only.

WALS--Weighted-average loss severity.

RELATED CRITERIA AND RESEARCH

- Global Structured Finance Scenario And Sensitivity Analysis: The Effects Of The Top Five Macroeconomic Factors, Nov. 4, 2011
- Principles Of Credit Ratings, Feb. 16, 2011
- Advance Notice Of Proposed Criteria Change: Methodologies And Assumptions For Rating Certain Covered Bonds And CDOs, Aug. 5, 2010
- Credit Stability Criteria, May 3, 2010
- Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds, Dec. 16, 2009
- Update To The Cash Flow Criteria For European RMBS Transactions, Jan. 6, 2009
- Standard & Poor's To Explicitly Recognize Credit Stability As An Important Rating Factor, Oct. 15, 2008
- European Legal Criteria For Structured Finance Transactions, Aug. 28, 2008
- Expanding European Covered Bond Universe Puts Spotlight On Key Analytics, July 16, 2004
- Cash Flow Criteria For European RMBS Transactions, Nov. 20, 2003
- Revised Criteria For Rating Danish Covered Bonds (Realkreditobligationer), July 10, 2003
- Rating Pfandbriefe--The Analytical Perspective, Jan. 27, 2003

Related articles are available on RatingsDirect. Criteria, presales, servicer evaluations, and ratings information can also be found on Standard & Poor's Web site at www.standardandpoors.com. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4011.
### Preliminary Ratings Assigned To Realkredit Danmark’s Capital Centre T Covered Bond Issuances

**RATINGS LIST**

<table>
<thead>
<tr>
<th>Program/ Country: Covered bond type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating</td>
</tr>
<tr>
<td>-------------------------------------</td>
</tr>
</tbody>
</table>

**PRELIMINARY RATINGS AND OUTLOOK ASSIGNED**

Realkredit Danmark A/S - Capital Centre T  
Long-term: AAA/Stable  
Short-term: A-1+  
Denmark: Særligt Dækkede Realkreditobligationer (Legislation-Enabled Covered Bonds)

**Additional Contact:**
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