

Research

Denmark-Based DLR Kredit's Covered Bonds Affirmed At AAA/A-1+, Section 15 Bonds Affirmed At 'BBB+'

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OVERVIEW

- We have reviewed Denmark-based DLR Kredit A/S' bonds issued through Capital Centre B and Capital Centre General as part of our ongoing surveillance.
- The available overcollateralization remains above the level we consider commensurate with a rating that is seven notches higher than our 'BBB+' issuer credit rating on DLR Kredit.
- We are therefore affirming our 'AAA/A-1+' ratings on the bank's SDOs (Saerligt daekkede obligationer) and ROs (Realkreditobligationer).
- We are also affirming our 'BBB+' ratings on the "section 15" bonds issued by Capital Centre B, which are subordinate to the SDOs but backed by the same pool of assets.
- The stable outlooks reflect that on DLR Kredit.

FRANKFURT (Standard & Poor's) June 6, 2014--Standard & Poor's Ratings Services today affirmed its 'AAA' long-term and 'A-1+' short-term ratings on the mortgage covered bonds issued by Denmark-based DLR Kredit A/S (BBB+/Stable/A-2):

- SDOs (Saerligt daekkede obligationer) through Capital Centre B; and
- ROs (Realkreditobligationer) through Capital Centre General.

At the same time, we affirmed our 'BBB+' long-term ratings on the "section 15" bonds issued through Capital Centre B.

The outlooks on all three covered bond programs are stable.

The affirmations follow our review of the covered bonds' related assets and cash flows as of Dec. 31, 2013.

In line with our methodology, the ratings on the mortgage covered bonds could be up to seven notches higher than the 'BBB+' long-term issuer credit rating on DLR Kredit (see "Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds," published Dec. 16, 2009, on RatingsDirect). The overcollateralization available to both capital centers is sufficient for us to apply all seven notches of uplift. We therefore rate the bonds 'AAA'.

The maximum potential uplift is based on our assessment of "low" asset-liability mismatch (ALMM) risk, owing to the Danish mortgage loan market's balancing principle, and our classification of the covered bonds in Category 1, our strongest program category, indicating that the covered bonds were issued in a well-established market that offers several funding options.

The section 15 bonds, so called because they are governed by Section 15 of Denmark's covered bonds legislation, are backed by the same pool of assets as the mortgage covered bonds issued by Capital Centre B. However, the bondholders' claim to the collateral is subordinate to that of the covered bond holders in the event of an issuer default. For section 15 bonds, we consider that, if DLR Kredit were to default, interest payments on the bonds would be deferred until the senior covered bondholders can be guaranteed payment in full.

We classify section 15 bonds as a temporary shock absorber for mortgage banks. In our opinion, section 15 bondholders are unlikely to receive full payment of principal and interest, or any interest on deferred interest if the bonds' maturity dates are extended. Therefore, we generally align our issue ratings on section 15 bonds with the ratings on the senior unsecured debt of the issuers. There are two reasons for this:

- The bonds' terms and conditions do not clearly define the final terms of the bond extension if the issuer defaults. We therefore consider that if the cover pool is insufficient to repay the section 15 bonds, the section 15 bondholders will rank equally with senior unsecured bondholders regarding claims on the issuer; and
- For the section 15 bondholders to maintain their seniority over the bank's unsecured creditors, additional assets would need to be available in the capital center after the covered bondholders are repaid. In our opinion, the availability of such additional assets strongly correlates with the strength of the issuer.

For further details, see "S&P Takes Rating Actions On Section 15 Bonds Issued By Various Danish Mortgage Banks," published on July 23, 2013.

The stable outlooks reflect the outlook on the issuer, DLR Kredit. All else

being equal, we would lower the ratings on the covered bonds if we lowered the ratings on DLR Kredit, or if ALMM risk increased.

POTENTIAL EFFECTS OF PROPOSED CRITERIA CHANGES

Our ratings are based on our applicable criteria, including those set out in the criteria articles "Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds," published on Dec. 16, 2009, and "Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions," published June 14, 2011. However, please note that these criteria are under review (see "Advance Notice Of Proposed Criteria Change For Covered Bonds" published on April 29, 2014, and "Request For Comment: Methodology And Assumptions For Ratings Above The Sovereign--Single Jurisdiction Structured Finance," published Oct. 14, 2013).

As a result of this review, our future criteria applicable to rating covered bonds may differ from our current criteria. These criteria changes may affect the ratings on the outstanding covered bonds issued by DLR Kredit A/S. Until such time that we adopt new criteria, we will continue to rate and surveil these covered bonds using our existing criteria (see the list of related criteria and research below).

RELATED CRITERIA AND RESEARCH

Related Criteria

- Principles For Rating Debt Issues Based On Imputed Promises, Oct. 24, 2013
- Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Sept. 13, 2013
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Covered Bond Ratings Framework: Methodology And Assumptions, June 26, 2012
- Covered Bonds Counterparty And Supporting Obligations Methodology And Assumptions, May 31, 2012
- Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- Methodology And Assumptions For Analyzing Mortgage Collateral In Danish Covered Bonds, May. 2, 2012
- Assessing Asset-Liability Mismatch Risk In Covered Bonds: Revised Methodology And Assumptions For Target Asset Spreads, April 24, 2012
- Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions, June 14, 2011
- Principles Of Credit Ratings, Feb. 16, 2011
- 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
- Cash Flow Criteria for European RMBS Transactions, Nov. 20, 2003

Related Research

- Advance Notice Of Proposed Criteria Change For Covered Bonds, April 29, 2014
- Request For Comment: Methodology And Assumptions For Ratings Above The Sovereign--Single Jurisdiction Structured Finance, Oct. 14, 2013
- DLR Kredit A/S, Sept. 5, 2013
- S&P Takes Rating Actions On Section 15 Bonds Issued By Various Danish Mortgage Banks, July 23, 2013

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