

Research

BRFkredit General Capital Centre Covered Bonds Upgraded To 'AAA' On Continued High Overcollateralization; Outlook Stable

Primary Credit Analyst:

Tom M Deex, London (44) 20-7176-3603; tom.deex@standardandpoors.com

Secondary Contact:

Casper R Andersen, London (44) 20-7176-6757; casper.andersen@standardandpoors.com

OVERVIEW

- We have reviewed the credit quality of the assets and the cash flows for the General Capital Centre covered bonds program of BRFkredit A/S, a traditional Danish mortgage bank.
- We have raised to 'AAA' from 'AA-' our ratings on the covered bonds under this program, which is six rating notches above the 'A-' rating on BRFkredit. Under our asset-liability mismatch criteria, the current maximum achievable rating uplift is seven notches.
- The upgrade reflects that the program's credit enhancement has consistently remained above the target level we consider commensurate with a 'AAA' rating.
- The stable outlook reflects our view that if we were to downgrade BRFkredit, this would not automatically trigger a downgrade of the covered bonds in this program.

LONDON (Standard & Poor's) Dec. 27, 2013--Standard & Poor's Ratings Services said today that it raised to 'AAA' from 'AA-' its long-term ratings on the mortgage covered bonds issued out of the General Capital Centre of BRFkredit A/S (A-/Negative/A-2), a Danish mortgage bank. The outlook is stable. At the same time, we affirmed the short-term rating on the General Capital Centre at 'A-1+'.

The upgrade follows our review of the General Capital Centre's assets and cash

flows as of Sept. 30, 2013, as part of our surveillance cycle. The available credit enhancement has consistently been above the level we consider commensurate with a 'AAA' rating. Our initial understanding was that BRFkredit would manage the program with an overcollateralization level commensurate with a rating of 'AA-'. However, the actual level of overcollateralization has been consistently higher than this, and we currently have no indication that the issuer will, within the short term, reduce overcollateralization or change the risk profile of the covered bonds. We have therefore raised the ratings to 'AAA', based on the current overcollateralization level.

The cover pool comprises a portfolio of mortgage assets against which BRFkredit issues "Realkreditobligationer," a type of Danish covered bond.

Under our asset-liability mismatch (ALMM) criteria, the ratings on the covered bonds could be seven notches higher than the issuer credit rating (ICR) on BRFkredit (see "Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds," published Dec. 16, 2009, on RatingsDirect). As of Sept. 30, 2013, we assess the ALMM risk of the covered bonds issued by the General Capital Centre as "low" and we categorize the program in Category 1, allowing the program to achieve the highest rating of 'AAA'.

The outlook on the program is stable because the program is eligible for seven notches of uplift from the ICR on BRFkredit, but currently only makes use of six notches to attain a 'AAA' rating. Therefore, we could lower the rating on the issuer by one notch, all else being equal, before we would lower the ratings on the covered bond program. The unused notch of uplift also means that a change in our classification of ALMM risk alone would not have any effect on our ratings on the covered bonds.

RELATED CRITERIA AND RESEARCH

Related Criteria

- Principles Of Credit Ratings, Feb. 16, 2011
- Covered Bond Ratings Framework: Methodology And Assumptions, June 26, 2012
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Covered Bonds Counterparty And Supporting Obligations Methodology And Assumptions, May 31, 2012
- Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Sept. 13, 2013
- Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds, Dec. 16, 2009
- Methodology: Credit Stability Criteria, May 3, 2010
- Cash Flow Criteria For European RMBS Transactions, Nov. 20, 2003
- Assessing Asset-Liability Mismatch Risk In Covered Bonds: Revised Methodology And Assumptions For Target Asset Spreads, April 24, 2012
- Methodology And Assumptions: Update To The Cash Flow Criteria For European RMBS Transactions, Jan. 6, 2009
- Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And

Assumptions, June 14, 2011

- Legal: Guarantee Criteria--Structured Finance, May 7, 2013
- Rating Pfandbriefe--The Analytical Perspective, Jan. 27, 2003
- Methodology And Assumptions For Analyzing Mortgage Collateral In Danish Covered Bonds, May 2, 2012

Related Research

- Methodology and Assumptions For Ratings Above The Sovereign--Single Jurisdiction Structured Finance, Oct. 14, 2013
- European Structured Finance Scenario And Sensitivity Analysis: The Effects Of The Top Five Macroeconomic Factors, March 14, 2012
- Global Structured Finance Scenario And Sensitivity Analysis: The Effects Of The Top Five Macroeconomic Factors, Nov. 4, 2011

Additional Contact:

Covered Bonds Surveillance; CoveredBondSurveillance@standardandpoors.com

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