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Research

## Summary: Realkredit Danmark A/S

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### ■ Rationale

The 'AAA' senior secured debt rating on the covered bonds (realkreditobligationer) issued by the General Capital Center of Realkredit Danmark A/S covers 89% of the bonds issued by Realkredit Danmark, and applies to all new bonds issued. The rating primarily reflects the realkreditobligationer collateral, coupled with protections afforded by Danish insolvency and banking laws. Realkredit Danmark maintains a segregated, revolving pool of high-quality mortgage assets, on which the holders of realkreditobligationer have a preferential claim. The amount of collateral is sufficient to absorb potential credit losses and pay interest on and repay the principal of the realkreditobligationer as they fall due, even in the unlikely case of Realkredit Danmark becoming unable to meet its obligations. The quality of the collateral pool and the adequacy of the underlying cash flows are subject to regular surveillance by Standard & Poor's. The rating also reflects the sound quality of Realkredit Danmark's management, control, and expertise.

Realkredit Danmark is a core subsidiary of Danske Bank A/S (AA-/Stable/A-1+), and is Danske Bank's mortgage finance business area. Danske Bank is the largest financial services group in Denmark, and is among the leaders in the Nordic region.

Realkredit Danmark benefits from a strong and effective distribution capability, robust core capitalization, high asset quality, and the concentration of its lending in the relatively low-risk area of residential housing. Profitability has traditionally been moderate due to the low-margin nature of mortgage lending. Total assets amounted to Danish krone 707 billion (\$125 billion) at year-end 2004. The company offers mortgages secured by residential, commercial, agricultural, and industrial properties. Mortgages are funded back-to-back by realkreditobligationer.

Capitalization remains robust. The company's Tier 1 ratio was 10.1% at year-end 2004. Loan quality is high: on average, the loan-to-value ratio is 61%. Profitability has held up well in 2004, resulting in a 0.78% net income-to-risk assets ratio at Dec. 31, 2004, compared with 0.75% in 2003. Standard & Poor's also expects Realkredit Danmark's credit fundamentals to remain strong, and will monitor economic risks in Denmark--in particular, asset price inflation and increasing household indebtedness--which could affect the level of nonperforming loans.

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