

Danmarks Skibskredit's Capital Center A And EUR500 Million New Issuance Assigned 'A' Ratings; Outlook Negative

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OVERVIEW

- Danmarks Skibskredit's covered bond program is backed by shipping collateral.
- We have assigned our 'A' rating to Danmarks Skibskredit's Capital Center A covered bond program and initial covered bond issuance.
- The 'A' rating on the Capital Center A ship covered bond program and new issuance reflects our reference rating level of 'a-' plus an additional notch of uplift.
- The negative outlook on our ratings reflects the negative outlook on the issuer. We would lower our ratings on the program and the bonds if we lower our rating on the issuer.

MADRID (S&P Global Ratings) March 28, 2019--S&P Global Ratings today assigned its 'A' credit rating to Danmarks Skibskredit A/S' Capital Center A covered bond program and €500 million inaugural Danish særligt dækkede obligationer (DSO) issuance. The outlook on the ratings is negative.

Danmarks Skibskredit's covered bond program is backed by shipping collateral.

The covered bonds issued by Capital Center A are SDOs and therefore comply with the Capital Requirements Directive (CRD). We also rate the covered bonds from Capital Center General, which are Danish ship covered bonds ("skibskreditobligationer" or SOs). The difference between SOs and SDOs are

mainly the requirement to update the valuation of the collateral and that SDOs attract lower risk-weights.

The ratings reflect our covered bond ratings process, which follows the methodology and assumptions outlined in our "Covered Bonds Criteria," published on Dec. 9, 2014, and "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015.

From our analysis of Danmarks Skibskredit's program documentation and the Danish legislative covered bond framework, we have concluded that the assets in the cover pool are isolated from the issuer's insolvency risk. The asset isolation allows us to potentially assign a higher rating to the covered bond program than our long-term issuer credit rating (ICR) on the issuer.

We conducted a review of Danmarks Skibskredit's operations, which we view as prudent. We believe satisfactory operational procedures are in place to support our rating on the covered bond program.

Danmarks Skibskredit, internationally known as Danish Ship Finance (DSF), is a Danish lender specializing in first-lien mortgage lending to the Danish shipping industry and select international shipping companies. As an issuer of covered bonds in Denmark, DSF is exempt from the EU's Bank Recovery and Resolution Directive. We consider that DSF's covered bonds in this jurisdiction have a moderate systemic importance. These factors increase the likelihood that Danmarks Skibskredit would continue servicing its covered bonds without accessing the cover pool or receiving jurisdictional support, even following a bail in of its senior unsecured obligations.

Our 'A' rating on the capital center A ship covered bond program and inaugural issuance of €500 million reflects our reference rating level (RRL) of 'a-' plus one additional notch of uplift resulting in a 'a' rating. As the issuer is exempt from bail in and we consider the systemic importance to be moderate, we assign one resolution support uplift notch to the ICR to get the reference rating level (RRL) of 'a-'. We have also considered that the issuer does not have a resolution counterparty rating (RCR) and that the RRL is the higher of the ICR plus one notch and the RCR.

Following the calculation of the RRL, we analyze jurisdictional support under our covered bonds criteria to determine the JRL. We consider shipping covered bonds in Denmark to benefit from moderate jurisdictional support, allowing for one additional notch of uplift from the RRL to achieve a JRL of 'a' (see "Assessments For Jurisdictional Support According To Our Covered Bonds Criteria," published on Oct. 16, 2018).

Our ratings currently do not reflect any collateral-based uplift because the replacement framework in the counterparty documentation is not in line with our counterparty criteria. Therefore, under these criteria, our ratings on the covered bond program and inaugural issuance is constrained by our counterparty criteria at 'A', which reflects the RRL plus one notch, and is not eligible

for any of the potential four additional notches of collateral-based uplift (see "Counterparty Risk Framework: Methodology And Assumptions ," published on March 8, 2019). Our counterparty criteria states that for programs with derivative agreements with unrelated counterparties (which is the case for this program) and with documentation not in line with our criteria, the ratings will be capped at the RRL plus one notch.

The negative outlook on the ratings on the covered bonds reflects the outlook on the issuer and that any rating action on the issuer will result in a rating action on the covered bonds.

RELATED CRITERIA

- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | Covered Bonds: Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Criteria | Structured Finance | Covered Bonds: Covered Bonds Criteria, Dec. 9, 2014
- General Criteria: Methodology: Credit Stability Criteria, May 3, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

RELATED RESEARCH

- Guidance: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Guidance: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Global Covered Bond Characteristics And Rating Summary Q4 2018, Dec. 12, 2018
- Assessments For Jurisdictional Support According To Our Covered Bonds Criteria, Oct. 16, 2018
- Danmarks Skibskredit A/S, Aug. 28, 2018
- Guidance: Covered Bonds: Covered Bonds Criteria, May 2, 2018

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