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Danmark Skibskredit's Capital Center General Ship Covered Bonds Assigned 'A' Ratings; Outlook Stable

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OVERVIEW

- We have assigned our 'A' ratings to Danmarks Skibskredit's unlimited capital center general ship covered bonds.
- The covered bonds are secured by a portfolio of loans secured by ship collateral and a reserve fund of liquid assets.
- The ratings reflect our view of the jurisdictional support for such bonds in Denmark.
- The stable outlook on our ratings reflects the outlook on the issuer credit rating.

LONDON (Standard & Poor's) Feb. 4, 2016--Standard & Poor's Ratings Services today assigned its 'A' credit ratings to Danmarks Skibskredit A/S' capital center general ship covered bond program and related issuances. The outlook on the ratings is stable.

We have applied our criteria for rating covered bonds (see "Covered Bonds Criteria," published on Dec. 9, 2014).

Under these criteria, we organize the analytical process for rating covered bonds into four key stages:

- Performing an initial analysis of issuer-specific factors--legal and regulatory risks and operational and administrative risks--which mainly assess whether a rating on the covered bond may be higher than the rating

on the issuer.

- Assessing the starting point for the rating analysis, based on the applicable resolution regimes, to determine the reference rating level (RRL).
- Determining the maximum achievable covered bond rating from an analysis of jurisdictional and cover pool-specific factors.
- Combining the results of the above and incorporating any additional factors, such as counterparty risk and country risk, to assign the final covered bond rating.

We use the long-term issuer credit rating (ICR) on Danmarks Skibskredit A/S (BBB+/Stable/A-2) as the starting point for our analysis (see "Denmark-Based Danmarks Skibskredit Rated 'BBB+/A-2'; Outlook Stable," published on Feb. 4, 2016).

After assessing the RRL, to determine a maximum achievable covered bond rating, we analyze jurisdictional and collateral support. Our assessment of the expected jurisdictional support for ship covered bond programs in Denmark is moderate (see "Assessments For Jurisdictional Support According To Our Covered Bonds Criteria," published on Dec. 22, 2015). Under our covered bonds criteria, the uplift from the RRL can be one notch when we assess the jurisdictional support as moderate. Under our analysis of jurisdictional support, we determine a jurisdiction-supported rating level (JRL), which is our assessment of the creditworthiness of a covered bond program once we have considered the level of jurisdictional support, but before giving credit to the amount of collateral.

Following the assessment of the RRL and JRL, we analyze the credit quality of the cover pool and the availability of liquidity support and committed overcollateralization to determine the maximum collateral uplift.

When applicable, we cap our ratings on ship covered bond programs under our criteria for rating securitizations above the sovereign foreign currency rating (see "Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance," published on May 29, 2015). Although the cover pool comprises assets from different jurisdictions, we do not assign ratings uplift based on this collateral. Instead, we consider that the issuer complies with the Danish covered bond law and Danish law on ship finance. The long-term rating on the sovereign does not constrain our ratings on the covered bonds. By complying with Danish law, we expect the Danish regulators to support Danish covered bonds backed by shipping collateral, as long as the law permits the geographical borrower distribution in the cover pool.

Lastly, the ratings on the capital center and related issuances are not constrained by legal or operational risk. Due to derivatives with no Standard & Poor's replacement language registered in the general capital center, counterparty risk currently caps the ratings at the JRL.

The 'A' ratings reflect our RRL of 'a-' and JRL of 'a' for the capital center.

The cover pool comprises loans secured by ships or ships under construction. It contains 337 loans to 76 customers located in 19 countries, with 30% of the assets to borrowers located in Denmark. The average loan size is DKK135 million and the loan size per borrower is DKK600 million (loans are backed by first-ranking ship mortgages). The ratings assigned do not reflect any collateral-based uplift as they are currently capped by our counterparty criteria (see "Related Criteria").

The stable outlook on our ratings reflects the outlook on the long-term ICR. We would lower our ratings on the covered bonds if we were to lower our long-term rating on the issuer.

RELATED CRITERIA AND RESEARCH

Related Criteria

- Counterparty Risk Analysis In Covered Bonds, Dec. 21, 2015
- Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance, May 29, 2015
- Covered Bonds Criteria, Dec. 9, 2014
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Sept. 13, 2013
- Understanding Standard & Poor's Rating Definitions, June 3, 2009

Related Research

- Denmark-Based Danmarks Skibskredit Rated 'BBB+/A-2'; Outlook Stable, Feb. 4, 2016
- Global Covered Bond Characteristics And Rating Summary Q4 2015, Dec. 29, 2015
- Assessments For Jurisdictional Support According To Our Covered Bonds Criteria, Dec. 22, 2015

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